

STRATEGIC MARKET PERSPECTIVE

Driving Value Through
S Consulting

Europe, 1998-1998

Market Analysis Programme - Europe

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Abstract

The IS consulting sector covers all the consulting services related to information systems. The sector ranges from elements of management consulting through to technical advice and guidance on equipment, networks and software.

The IS consulting market grew very rapidly throughout the 1980s. During this period the management consulting vendors won significant market share from the traditional computer services vendors. In 1991 and 1992 this rapid growth came to an abrupt halt. Several of the largest equipment vendors have recently launched new business initiatives in consulting services.

This study is a perspective on the pivotal role of IS consulting, with its ability to generate other professional services and systems business, the changing demands of large organisations and its relationship with the adjacent market of management consulting.

Customer preferences and expectations are surveyed. Market driving forces and inhibitors are analysed. Leading competitors are identified in the major European markets. The size of the opportunity and forecasts of market growth are given.

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Mountain View
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Information Services Market Analysis Programme - Europe

Delivering Value Through IS Consulting—Europe, 1993-1998

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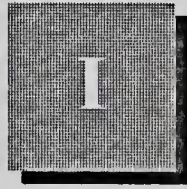
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Introduction

This report is produced as one of a series of executive perspectives in INPUT's Software and Services Planning Service for the computer software and services industry in Europe.

A

Objectives

This report identifies:

- The opinions and expectations of users of consultancy services
- Market sizes and growth forecasts for IS consulting services in Europe
- The relationship between business consulting and IS consulting services.

The objective of this report is to offer consulting market insights for professional services vendors.

The report examines the perceptions of large users towards gaining value for money from consultants, their preferred relationships and the influence of business process re-engineering on IS consultancy.

B

Scope and Methodology

The user research was carried out with a structured questionnaire (see Appendix B) to set the context of interviews. The questionnaire formed the basis of interviews with the respondent to gain additional background to the responses. INPUT interviewed a total of 20 organisations among large firms in France, Germany, the Netherlands, Scandinavia and the UK.

Most of these organisations were world leaders and global companies. All are very well known in their national markets. These types of company were chosen because the business attitude of leading companies is a major factor driving the short and medium term consultancy market.

Where possible, two people were interviewed per organisation, one in IS management, the other in business management, using the same basic questions. This was to provide a contrast between the opinions and attitudes of the two groups. In fact, the opinions were very uniform within in each organisation, suggesting much more common understanding of internal business/IS issues than had been anticipated.

Exhibit I-1 shows the mix of organisations surveyed for this study. Many of these organisations are world leaders and global companies. All are very well known in their national markets. We deliberately selected this profile because the business attitude of leading companies is a major factor driving the short- and medium-term consultancy marketplace.

EXHIBIT I-1

Industry Profile of Respondent Organisations

Industry	Number of Respondents
Process manufacturing	5
Discrete manufacturing	4
Distribution	3
Financial services	5
Other industries	3

Market forecasts and leading IS consulting vendor analyses were carried out within the context of INPUT's vendor revenue and forecast databases.

Additionally, INPUT's extensive library and database of research and other information relating to the software and services industry was used.

C

Definitions

This report identifies IS consulting spending trends in Europe, France, Germany, the United Kingdom and Italy. The services included within the term *IS consulting services* in this report encompass a subsector of professional services within INPUT's standard delivery mode definitions:

IS Consulting: Services include management consulting (related to information systems), information systems re-engineering, information systems consulting, feasibility analysis and cost-effectiveness studies, and project management assistance. Services may be related to any aspect of the information system, including equipment, software, networks and systems operations.

D

Report Structure

The remaining chapters of this report are structured in the following way:

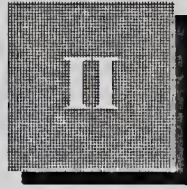
- Chapter II is an executive overview offering a concise summary of the conclusions of the report.
- Chapter III describes INPUT's analysis of the user research covering user needs, user satisfaction and perceived value-for-money of consulting. Additional questions revealed the kinds of consulting firms users buy from, user buying plans, user attitude to business process re-engineering/redesign (BPR), and the short-term outlook for consulting firms.
- Chapter IV provides market forecasts and leading vendor rankings for IS consulting, a perspective on the management consulting market and an analysis of the trend to business process re-engineering.
- The appendices provide a copy of the outline questionnaire used, and the full IS consulting forecast database for Europe.

E

Other Relevant INPUT Reports

- *Systems Integration Opportunities in Re-engineering, Europe*
(March 1993)
- *Professional Services—Re-Focus for the 1990s*
(October 1993)
- *European Market for Computer Software and Services, 1993-1998*
(December 1993)

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Executive Overview

A

IS Consultants Must Specialise to Give Good Value for Money

Consultancy thrives on complexity, whether managerial or technological. Its value is based on the methodology, depth of knowledge and experience that a consulting firm can apply to recognising and resolving the client's situation. With competition steadily increasing, consultancies must continue to specialise in order to improve their value to clients.

After a period of very rapid growth during the late 1980s IS consulting vendors faced difficult times in 1992 as growth came to a halt. European recession and loss of confidence in past IT investment caused a significant hesitation in demand for IS consulting services. At the same time, the major equipment vendors launched their own consulting services aggressively into an already highly competitive market. In the second half of 1993, demand seems to be rising once more as clients recognise the key contribution that outside consultants can make to the value of their IS projects.

In the consulting market the concept of value has always had a far stronger role than cost as a means of determining price. In the search for good value from consultants, client demand is becoming biased toward the use of consultants from vendors who are:

- Also able to provide implementation services such as systems development or integration
- Recognised specialists in their field (function, industry, application or technology)

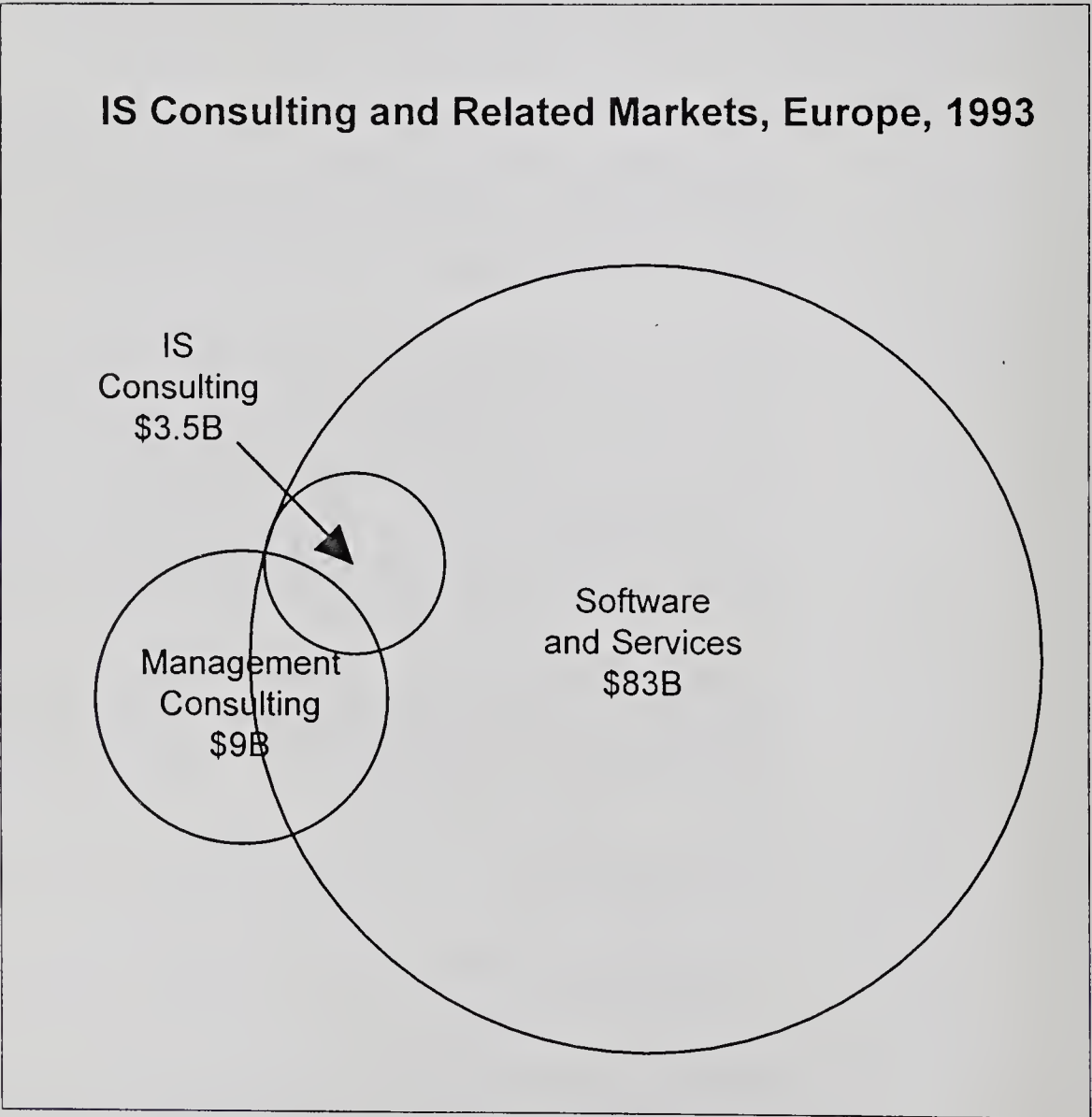
Both IS consultancies and management consultancies are seen as providing value in linking business needs with defining IT solutions. However IS consultants who can also implement solutions are preferred over those who only offer advice and guidance.

INPUT’s research reveals that technical IS consultants are perceived by their clients to give consistently good value for money. On the other hand, management consultants are perceived to give only average value for money, sometimes very good but sometimes very poor value for money.

The market will become more segmented and cellular in nature as demand for general consultancy falls. Vendors of IS consulting need to become more niche orientated and specialised. In those areas where they are not specialised they should form partnerships.

IT managers in large European enterprises expect to start spending more with consultants in 1994, having reduced spending in 1991, 1992 and 1993. INPUT forecasts 9% compound annual growth in the IS consulting market between 1993 and 1998.

EXHIBIT II-1



B**Competition Increasing**

The IS consulting market represents about 4% of the total software and services market in Europe. INPUT defines IS consulting to include IS-related management consulting, IS re-engineering, feasibility analysis, cost-effectiveness studies and project management assistance.

IS consulting is one part of the total software and services market continuously researched by INPUT around the world. IS consulting also overlaps with the market addressed by the management consultants. Exhibit II-1 shows the relative sizes of these markets.

IS consulting, while smaller than either of the adjacent markets, is the key element bridging the activities on either side. It forms the link between the identification or development of businesses needs and the implementation of IS solutions and operations which support those needs.

During the 1980s, the software and services market in Europe grew by a factor of eight (an average annual growth rate of about 25%). The management consulting market grew even faster, gradually increasing their share of the software and services market until IT-related activity represents about 35% of their business in Europe.

The effects of recession combined with a loss of confidence in IT among senior management brought this rapid growth to a halt between 1991 and 1992. The result has been that competition for consulting business has increased markedly.

Equipment vendors in particular have changed their approach to IS consulting. In the past they provided many advisory services free of charge to large customers. Now they have unbundled these services and expanded their scope well beyond the bounds of their own hardware and software products.

Vendors like Digital, IBM and Unisys have launched aggressively into management consulting services. Unisys has analysed its key competence as information-related consulting services. In comparison, IBM seems to be attacking the market on a much broader front using specialists from all parts of the company's operations.

The primary forces changing the IS consulting market are summarised in Exhibit II-2.

EXHIBIT II-2

IS Consulting Drivers and Inhibitors

Market Drivers	Market Inhibitors
<ul style="list-style-type: none">• Cost-saving improvements• Demand for BPR• Reduced in-house staffing• Creative use of technology	<ul style="list-style-type: none">• Financial restraint• Care & maintenance only• Internal self-sufficiency• Loss of faith in IT

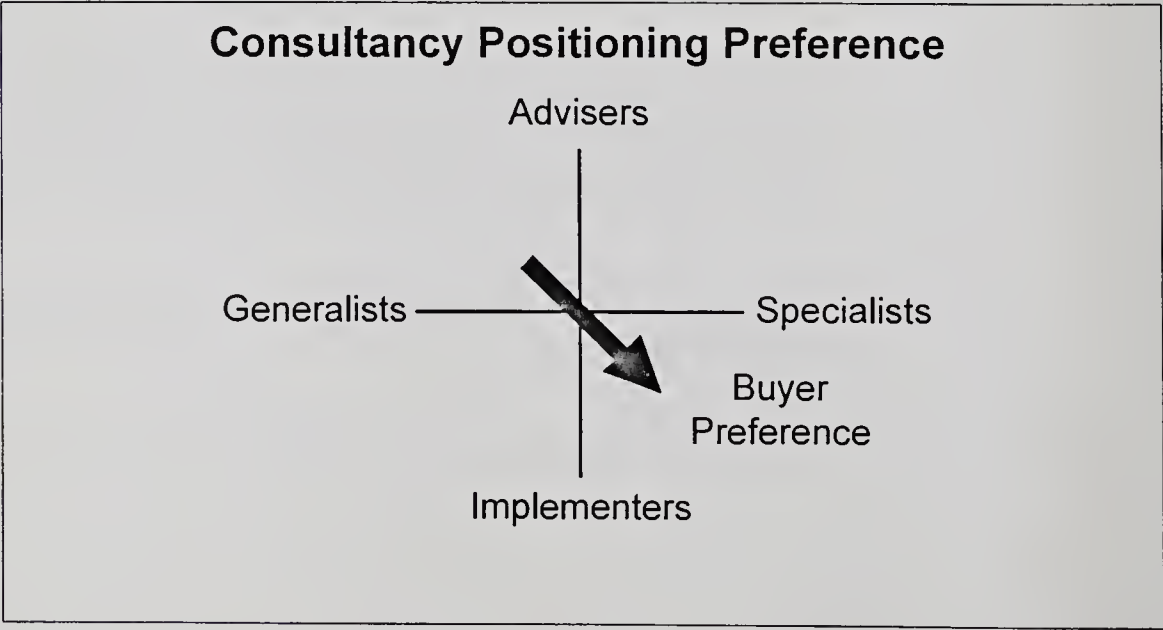
Financial restraint is still the most significant impediment to the use of consultants. Consulting, planning and training expenses are among the easiest to cut with minimal short-term effect, a fact that consultants have become very well aware of in the past two years as demand fell. But IS managers in large enterprises anticipate increasing use of external consultants as IS comes under pressure to help lower costs, to support business process re-engineering (BPR) projects, and to use IT more creatively within the enterprise.

C

Specialist Consultants Favoured

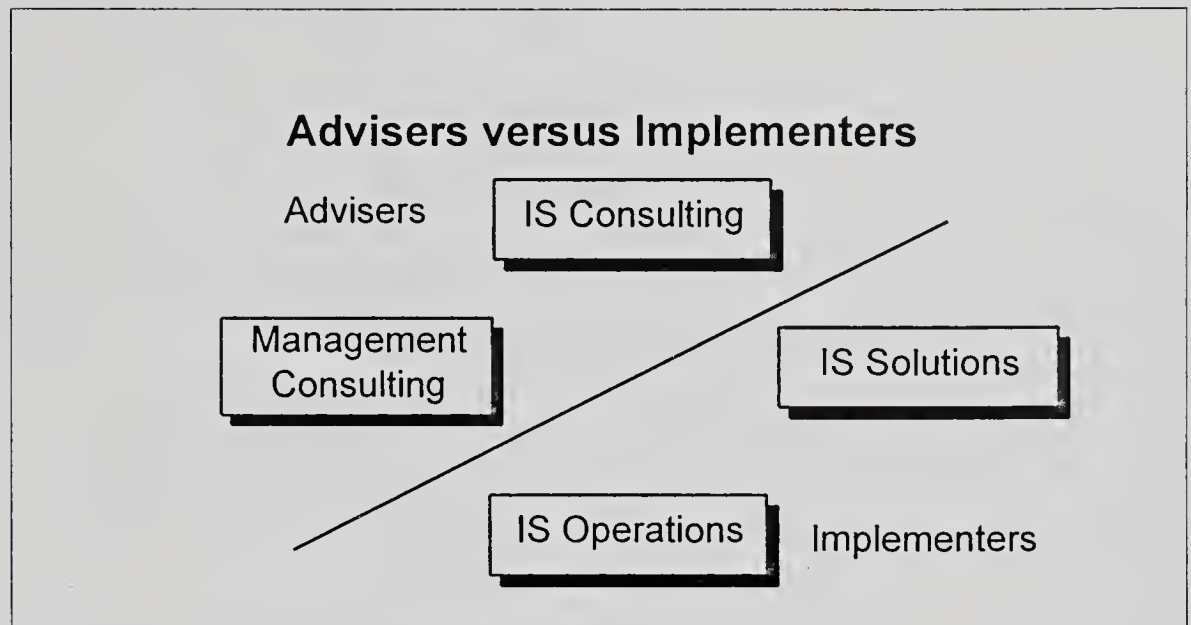
Consultants were originally contracted to provide advice and guidance. Their independence is a valued attribute and they are often used to provide an expert “second opinion.”

EXHIBIT II-3



However, the large commercial organisations who are buyers of IS-related consulting services are showing a firm preference for using consultants who can both advise and then carry out the advice by delivering results. Buyers have more confidence in advice if the consultancy is also prepared to carry out the implementation. So IS consultants from a systems integrator or software developer would have an advantage over those who did not offer to share the financial risks of implementing their own recommendations.

EXHIBIT II-4



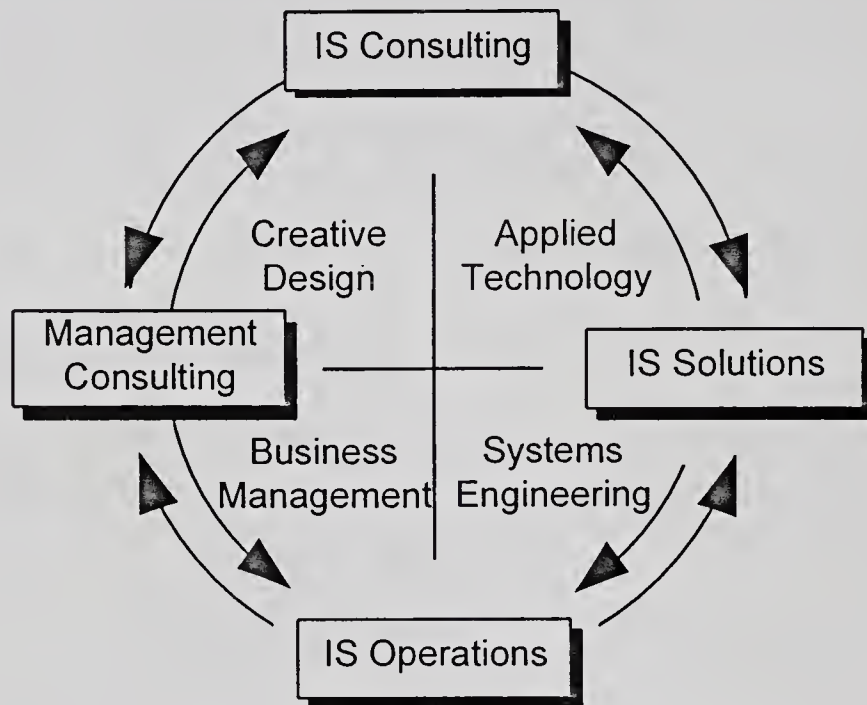
A second preference was also revealed by customer research. Buyers prefer to deal with specialists rather than with generalists. The complexity of both business management and systems engineering make the vendor with a generalist “we can do anything, what do you want” approach less favoured.

Exhibit II-3 shows the direction vendors need to take in positioning their company to respond to these trends. INPUT sees movement towards a more cellular segmentation of markets, where specialist market or technology focus can provide differentiation for vendors.

Analysis of the relationship between advisers and implementers can be usefully developed further. Exhibit II-4 adds the IS systems operations (outsourcing) vendors to the picture.

The two adviser groups shown are management consultants, such as McKinsey, and IS consultants like CSC-Index. The two implementing groups are IS solution vendors and IS operations vendors such as EDS. IS solutions vendors include system integrators and software developers such as Cap Gemini Sogeti.

EXHIBIT II-5

Common Key Success Factors Drive Adjacent Markets

Normally IS operations vendors, providing outsourcing and support services, are seen as a long way down the value chain from the management consultants. The diagram in Exhibit II-5 identifies a common success factor between each pair of vendor types, and how the business reach of each type of vendor extends into adjacent markets.

Each of the four types of vendor on the chart shares a key success factor with its neighbours. For example, IS operations vendors and management consultants share the essential knowledge of business management principles. This illustrates the overlap in skills and knowledge between vendors in entirely different businesses. It also suggests opportunities for each type of vendor to diversify into adjacent sectors. But such moves need to be tested against the market demand for more and more specialisation.

D**Niche Strategies To Deliver Value**

The complexity of the IS market, both in terms of new technologies and new business process needs will ensure that demand for IS consulting skills will grow. As the previous diagram shows, there is a strong temptation for vendors in adjacent businesses to build up their IS consulting capability.

Professional services vendors currently supply most of the IS consulting needs in the market. Their key success factors are shown in Exhibit II-6. Some elements of consulting are applied to every project such vendors undertake. These key success factors encompass innovation, application and industry sector knowledge, partnerships and the resources to implement recommended solutions.

INPUT expects success to stem from a focus on core competences rather than from attempts to extend from IS consulting, or “how to exploit IT in the business,” into business consulting, or “how to run the business better.”

EXHIBIT II-6

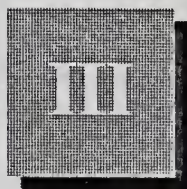
IS Consulting Key Success Factors

- Image:
 - Niche/specialist expertise
 - Alliances in other niches
- Resources:
 - Creative design skills
 - Applied technology experience
 - Implementation ability

IS strategy and vendor selection are the two key IS consulting services where “independence” is highly valued by buyers. This may be the biggest inhibitor for equipment vendors as they develop their consulting services. However, there will still be plenty of other consulting services where their specialist technical or industry knowledge will give them distinct advantages. Equipment vendors are often a natural choice as system implementers and this will give them some advantage as a supplier of IS consulting services.

The equipment vendor moves into the management consulting sector in an attempt to influence demand for IT solutions and lead from the front. Such moves need a strong market focus supported by some form of acquisition strategy, or very heavy marketing expenditure to create awareness and demand. Without such niche strategies these moves will take a long time to win significant market share away from independent consultancies.

Management consultancies need to reassess their objectives in the IS-related market. Competition in the software and services sector is extremely fierce. The market is demanding more implementation expertise to support technical recommendations. To penetrate this market further the management consultancies will need to invest more heavily in technical resources and leading edge experience. This is likely to be a long-term investment strategy rather than a short-term acquisition strategy for any of the major management consultancies.



Consultancy Users Expectations

A

Traditional User Demands Dominate Consulting Needs

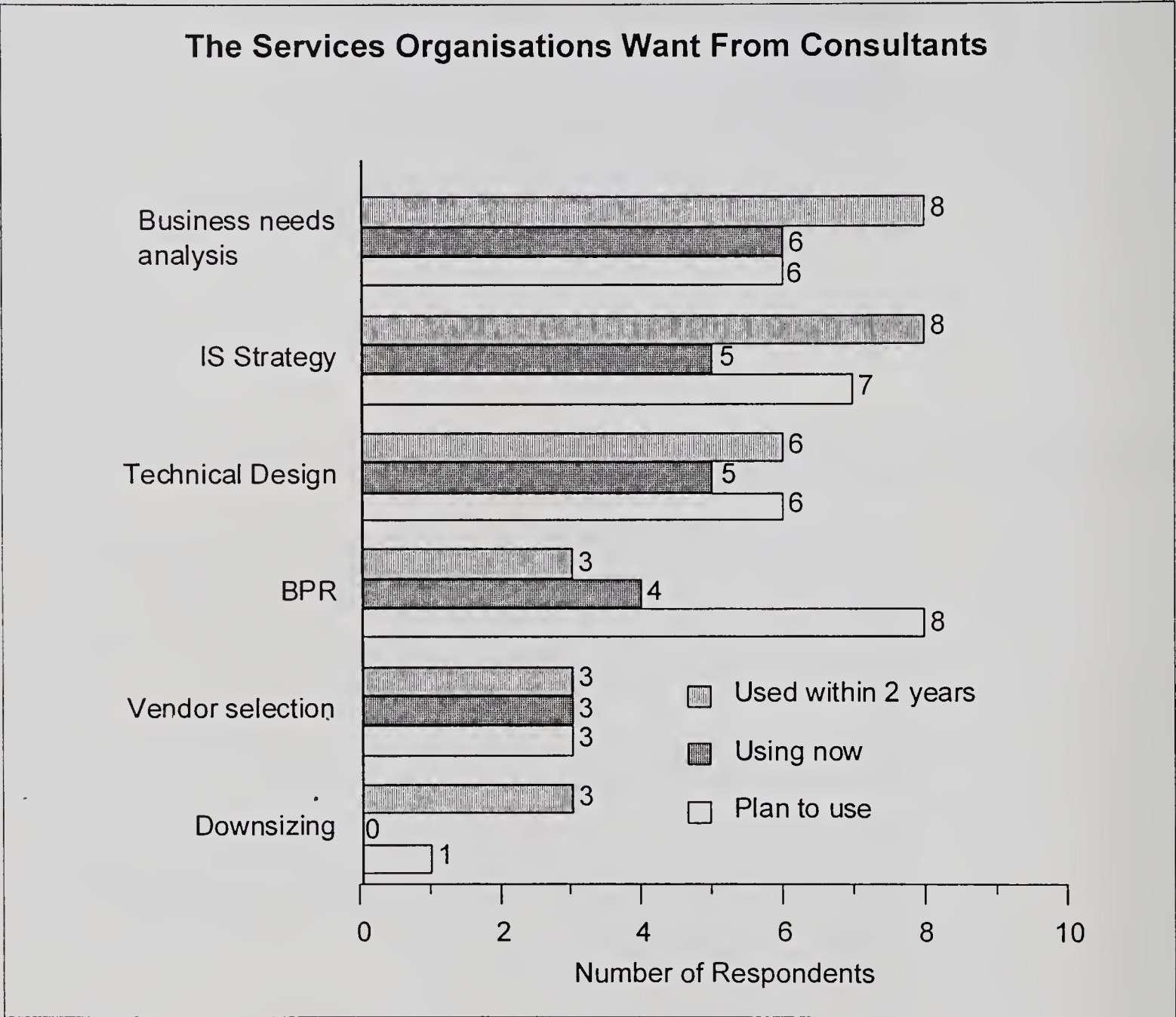
Organisations are planning to use consulting firms for the same kinds of work in the future as now. Exhibit III-1 shows the consultancy services these organisations have been using and plan to use in the future. Two factors are immediately visible from this exhibit—that organisations plan to continue using the same kinds of consultancy as they have used in the past and that all organisations plan to undertake some form of BPR.

Services such as vendor selection, outsourcing, downsizing and managing legacy systems provide steady work but remain low-profile.

Many of the respondents INPUT contacted all planned to use consultants for advice on outsourcing, downsizing and so on. However, these services were regarded as low-level and not of strategic importance. Generally, the selection of consultancy for these services was carried out at a lower level than IS director in the organisations INPUT studied.

New products like business process redesign and re-engineering(BPR) are not fully established yet but have high visibility and are showing great potential. In addition to those actively implementing or planning to implement BPR, almost half the respondents are actively discussing BPR within their businesses. Within the next year INPUT expects at least some of this discussion-stage activity to be translated into action.

EXHIBIT III-1



B

Well-Established Consultancy Services are Seen as Delivering Consistent Value-For-Money

Only the well established areas of consultancy, such as technical design and IS strategy, are regarded as consistently offering value-for-money.

The areas of consulting that showed the most consistent value-for-money are shown in Exhibit III-2. The two consultancy services showing the highest value-for-money are technical design and IS strategy. Both of these services are well understood and mature aspects of the computing scene. This service maturity probably explains the fairly narrow spread of value-for-money as seen by respondents.

There are wide variations in the perceived value-for-money of business needs consulting. Exhibit III-2 shows that of all aspects of consultancy that impact the IS manager, business needs analysis had the widest variation in value-for-money as seen by respondents. The average of all responses was almost neutral, meaning that respondents perception is that on average consultants deliver satisfactory but far from outstanding results when addressing the problem of business needs analysis.

However, just looking at the average of the responses can be misleading. Those respondents who got good value for money used the consultancy:

- To get new ideas
- For political reasons
- As insurance against making mistakes.

The wide experience of consultants is a valuable source of new ideas on the latest best business practices.

Spending, say, 5% of the budget to gain and keep top management commitment was seen as a cheap way of avoiding trouble.

Using consultants for a second opinion is common. Consultants are valued as a “sanity check” on a project in order to get it approved or stopped. They can also cut through endless internal debate on a project.

Those respondents who found that business needs analysis had been poor value-for-money had two main reasons. Some simply had a bad experience. Others, those clients with a very highly developed IS structure, tended to find business needs consultants just took too long to understand the intricacies of the business. Those in specialist niches had a related problem, finding that their specialist business needs could not be met by consultants with general backgrounds who lacked the depth of understanding necessary to make a useful contribution.

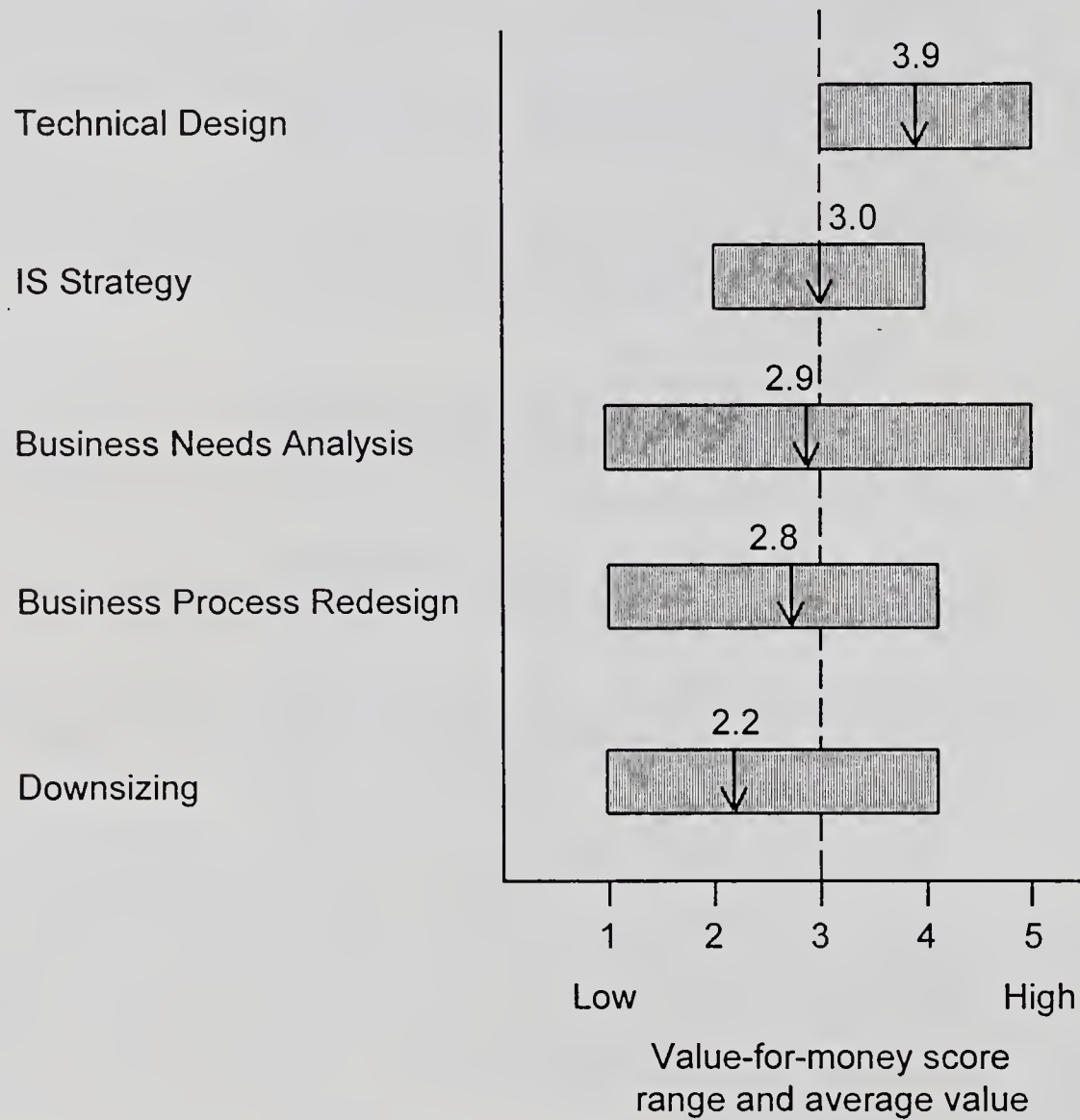
BPR showed an almost average value-for-money. This response must be regarded as an expectation rather than experience. This is because no respondents had had sufficient time yet to draw valid conclusions on BPR. Few had even completed a BPR project.

Downsizing was not perceived as a consulting service that delivered high value-for-money. Respondents explained that although downsizing was being pushed as a way of reducing the costs of delivering IS, the cost of consulting added to the cost of migration to a downsized system severely reduced short-term cost benefits.

The satisfaction with the results delivered by management consulting firms is seen as average.

EXHIBIT III-2

The Value-For-Money of Consultancy As Seen By Customers

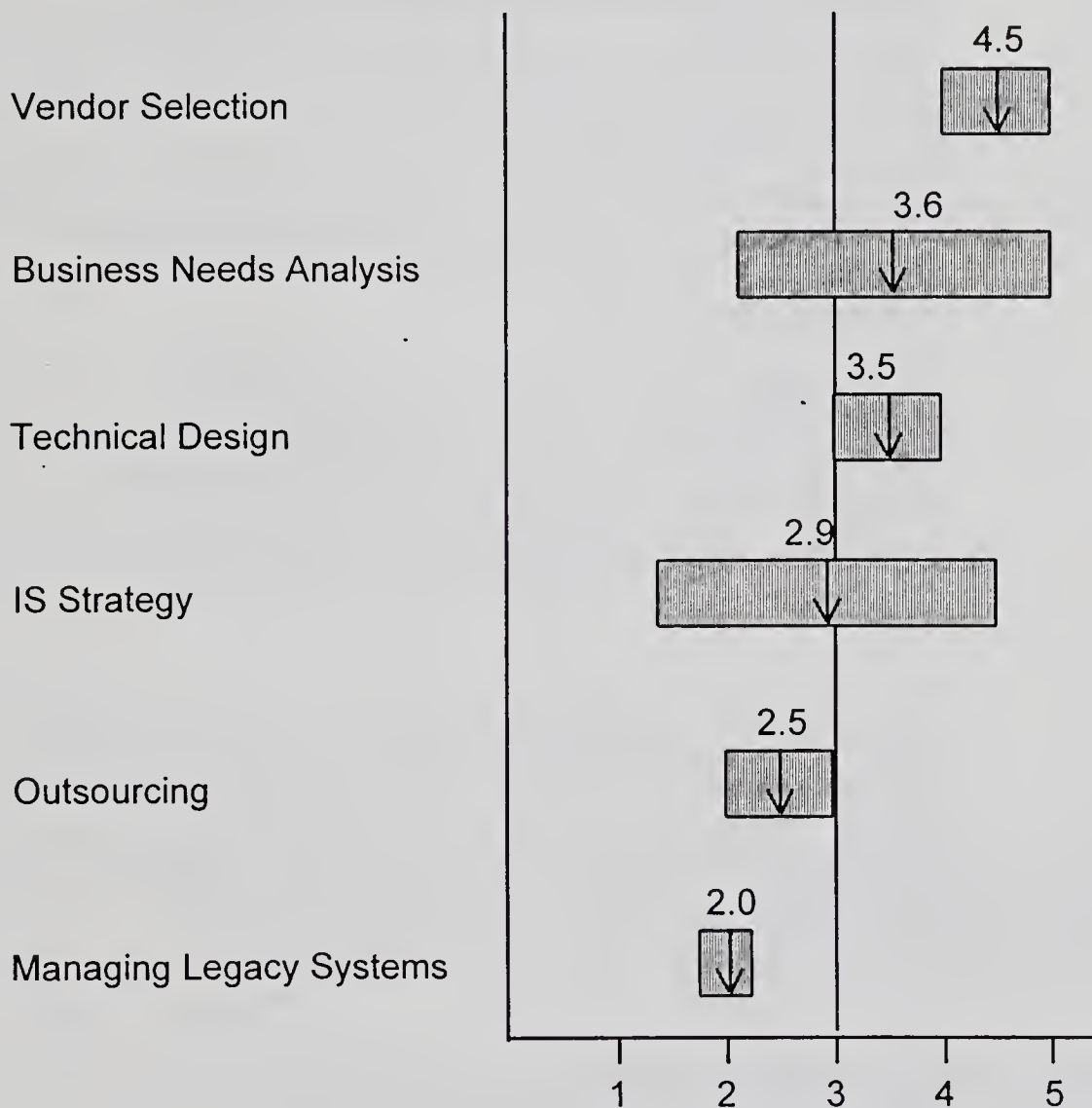


Note: ↓ = Average value of sample
Sample of 20 respondents

Exhibit III-3 shows that only vendor selection and technical design services were seen as offering consistent results and high user satisfaction. Vendor selection services scored highly with a narrow spread of user satisfaction around a high average score. Satisfaction with business needs analysis was widely spread between poor and excellent. Further analysis showed that two respondents had employed consulting firms who had done an unusually outstanding job. Technical design scored consistently well on satisfaction. IS strategy scores align closely with opinions on value-for-money. IS strategy scores align closely with opinions on value-for-money.

EXHIBIT III-3

User Satisfaction With Consultancy



Note: ↓ = Average value of sample
Sample of 20 respondents

Value-for-money score
range and average value

Neither outsourcing nor managing legacy systems were seen as a key decision for the respondents who took part in the study. Those who had used such services were generally dissatisfied with the advice they had received.

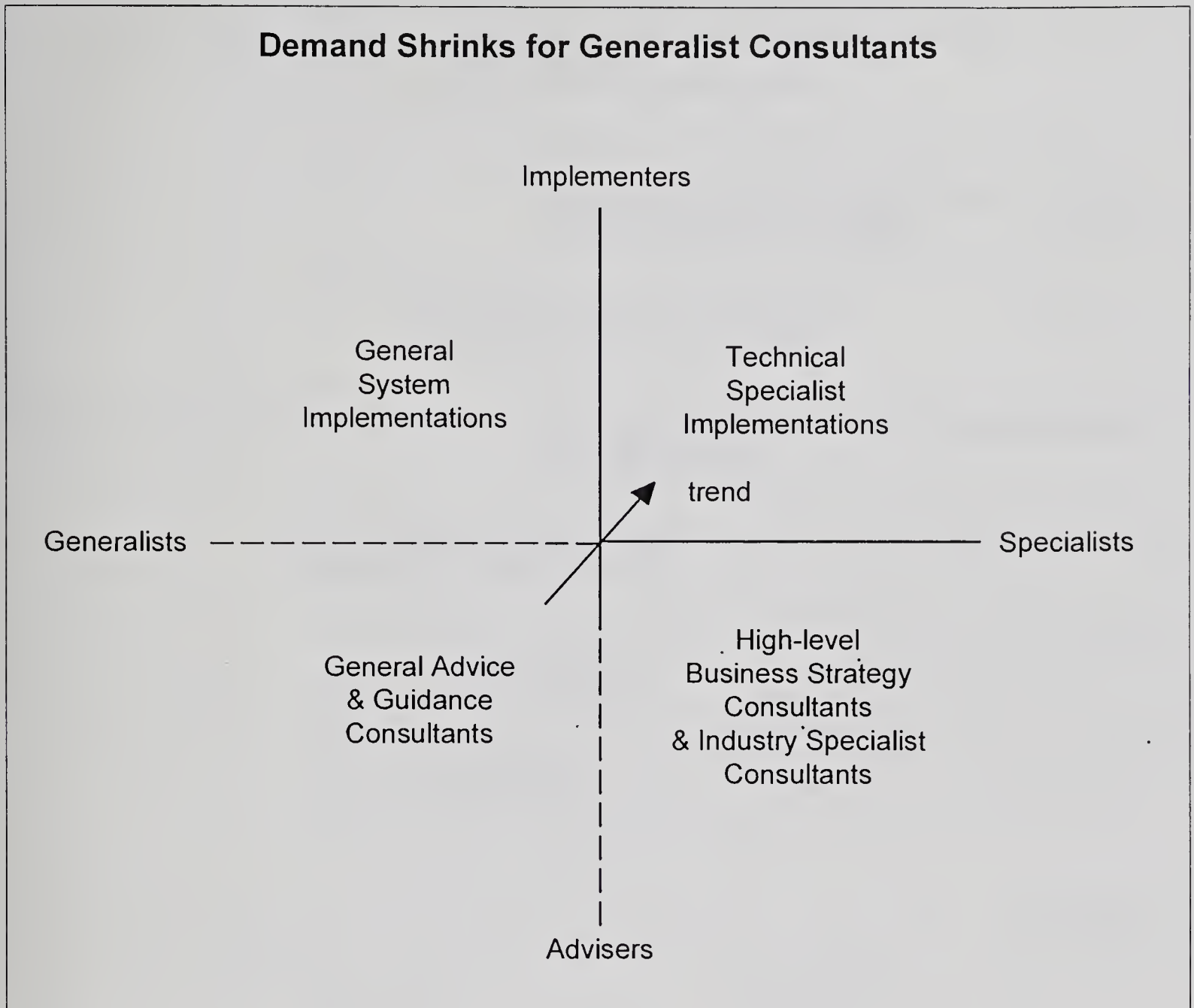
One of the key comments several of the respondents made was that the quality of the individuals supplied by the consulting firm was much more important than the size or supposed quality of the firm. Other key comments emphasised the need for strength in the industry sector or problem under discussion—there was no need for ‘good all-rounders’. There was also a deep suspicion of consultants and their real abilities with some experience of unsatisfactory work delivered by consultants. One respondent referred to a consulting firm that “flew first class and delivered second class.”

Despite these problems almost all the respondents have a definite plan to carry on using consultants. The key to this apparent contradiction is that organisations are always looking for a new idea or a new direction to try and get ahead. Consultants try to provide those ideas, some of which turn out to be good ideas and others turn out to be bad. Neither the adviser nor the advised knows all the answers, recession has made that very clear. All that is clear is that business is very much like fashion—what works one year is out the next—but the very best in quality lasts longer than the rest. Telling the difference is the problem.

The findings so far point to two key implications for the consultancy firms. The first is for consultancies to become more clearly identified *either* as an implementer *or* as an advisor. The second is for consultancies to decide whether to be specialists, with focus on particular aspects of business or particular industries or technologies; or to be generalists with a wide range of skills and experience. INPUT's conclusion is that this second course is unwise.

Exhibit III-4 illustrates this segmentation of skills and the gradual shrinking in demand for generalist advice and guidance consulting. Systems implementers will gradually take over the IS component of the general advice and guidance market. This is because this is their area of proven skills and customers have learned that it is frequently cheaper and equally effective to use implementers as advisers.

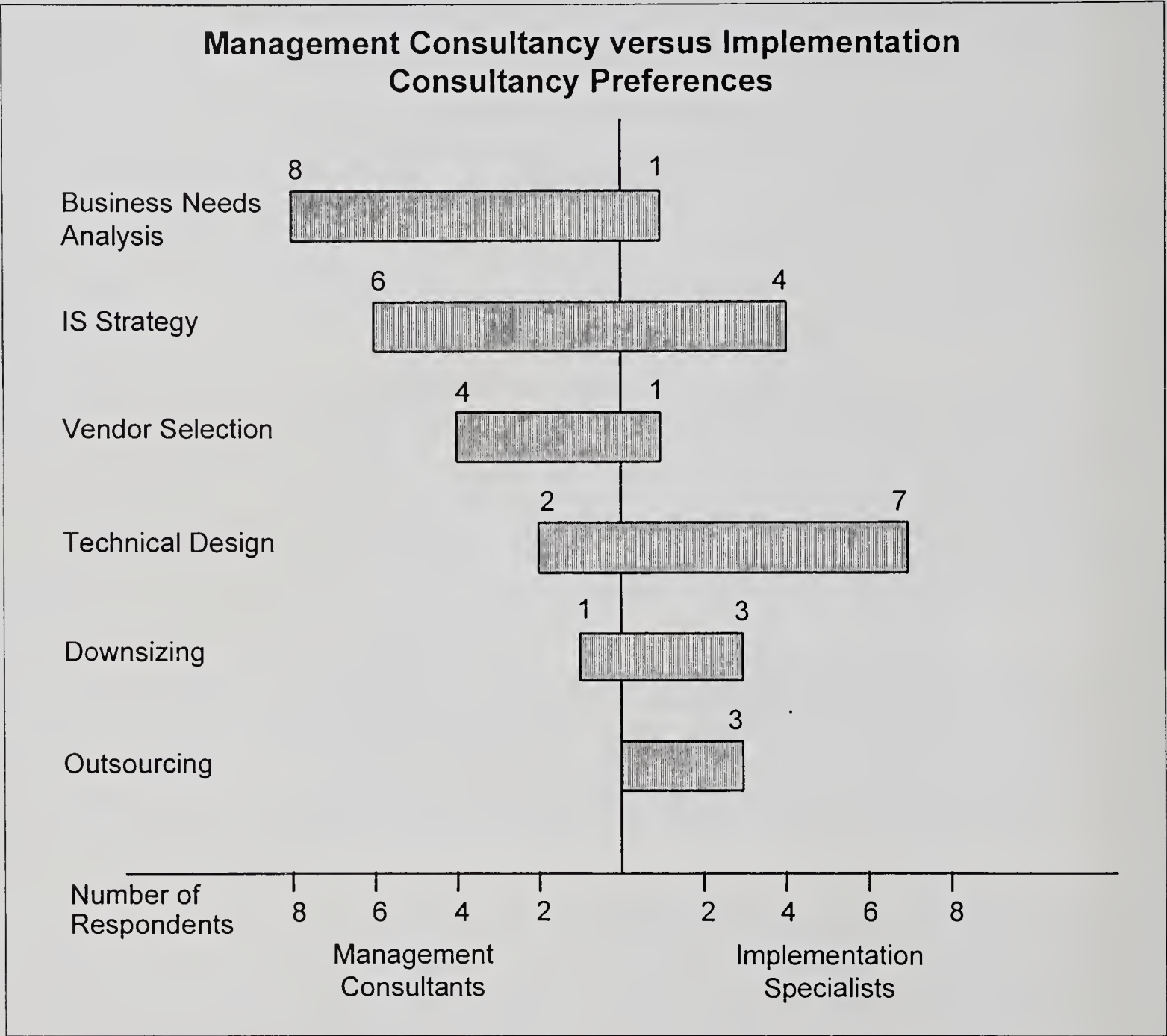
EXHIBIT III-4



The general advice and guidance sector is also under pressure from high-level strategy consultants and, to some extent, industry specialists. This trend will force generalist consultancies to sharpen their skills and in some cases reduce headcount.

Exhibit III-5 shows how respondents rated their preference for management consultants and implementation consultants across a range of requirements.

EXHIBIT III-5



Business needs analysis is predominantly the realm of management consulting firms. Only one respondent preferred implementation specialists. This was because they had found that industry experience, which the implementer had, was more important than independent general management expertise.

IS strategy consulting scored more or less equally in favour of both types of consultancy. Many organisations had found that implementation consultancies and in some cases system vendors had done as good a job as management consultants.

Vendor selection is a major role for management consultancies, mainly because of their independence from product suppliers. Many implementation consultancies have strong alliances with hardware and software vendors.

The few respondents who favoured management consultancies for technical design actually used the large broadly-based firms such as Andersen Consulting or Gemini Consulting.

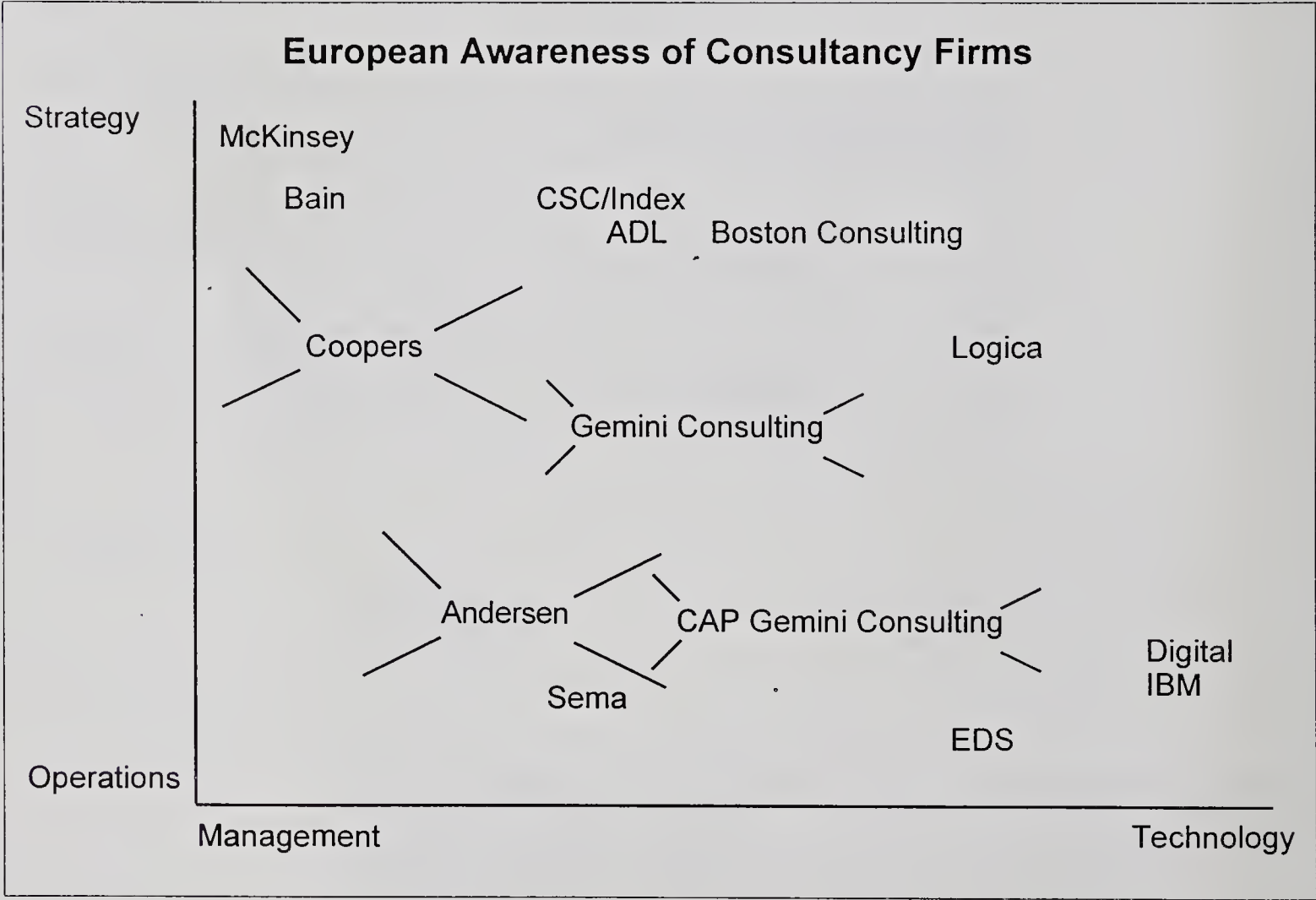
C

Companies Tend to Buy Consultancy From a Limited Range of Potential Suppliers

Although the market is fairly broad, the buyers are only aware of a very few of the potential suppliers and tend to stick with them. A series of questions were posed to determine perception of the market positioning of the main European consulting firms. From these questions it was found that almost all respondents tended to use only two or three management consulting firms and up to four implementation or specialist technical consulting firms. The reason is time and relationships. It simply takes too long to get to know and understand the culture and quality of a consulting firm's people. One respondent said that he would call up his two main consulting firms and take a look at the people they sent round. Only if that failed to produce a satisfactory result would he start to look elsewhere. This approach is plainly very satisfactory for run-of-the-mill IS consultancy but is not always satisfactory for corporate-wide change.

The generalist consulting firms are extending their influence into all segments of the market. The positioning of the major consultancy players as seen by respondents is shown in Exhibit III-6. Firms such as McKinsey and Bain are seen as the leading business strategists with CSC/Index, Arthur D. Little and Boston Consulting leading in IS strategy. Although these firms were seen as possible leaders, more respondents were aware of and had used consulting firms such as Andersen Consulting, Coopers & Lybrand and Sogeti's Gemini Consulting and Cap Gemini Sogeti. In fact, these firms are seen as offering a very wide range of services that extend from management strategy through to technology operations. This wide range made it impossible to position these generalist firms as strategy consultants or operations experts, because they do everything.

EXHIBIT III-6



A clear message from respondents was that the computer system vendors made very good implementation consultants but poor management or strategy consultants. The problems cited in support of this ranged from jumping to conclusions about implementation far too quickly, through to being old fashioned and behind the times. The benefit of using systems vendors as consultants was that they frequently provided 80% of the answer free of

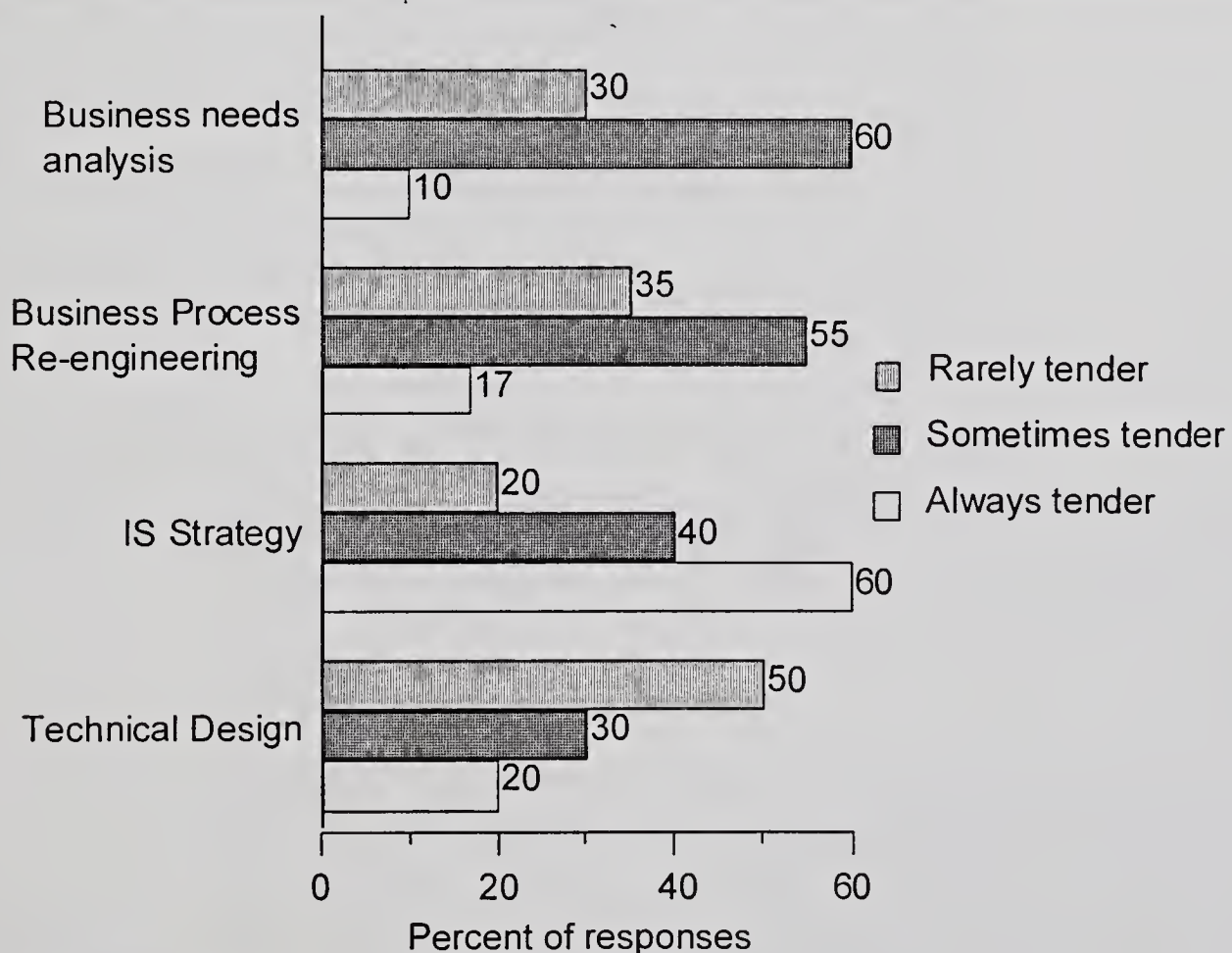
charge. No respondents planned to use a systems vendor for high level business planning, but several were planning to use them for implementation consulting.

For business consulting firms that are or have been the auditors have an advantage. Many of the respondents reported a strong tendency to use management consultancies that were or had been their auditors. This was because the auditors already understood the business and there was also a need to make sure the auditors 'bought-in' to business changes. Using auditors also avoided a long learning curve and avoided exposing the buyer of consultancy to credibility problems when seeking management approval.

Very high-level strategic consultancy is normally bought on the quality of the people and their fit to the problem rather than price. Technical design, vendor selection and outsourcing consultancy is bought on the basis of a long relationship or an absolute link to the requirement. In these areas of consultancy the respondents were far less likely to require competitive bidding than in general management consulting assignments such as IS strategy planning. The tendency to require competitive bidding is shown in Exhibit III-7.

EXHIBIT III-7

User Requirement for Consulting Firms to Bid Competitively



Sample of 20 respondents

D**Hiring a Consulting Firm Will Remain a Short-Term Decision**

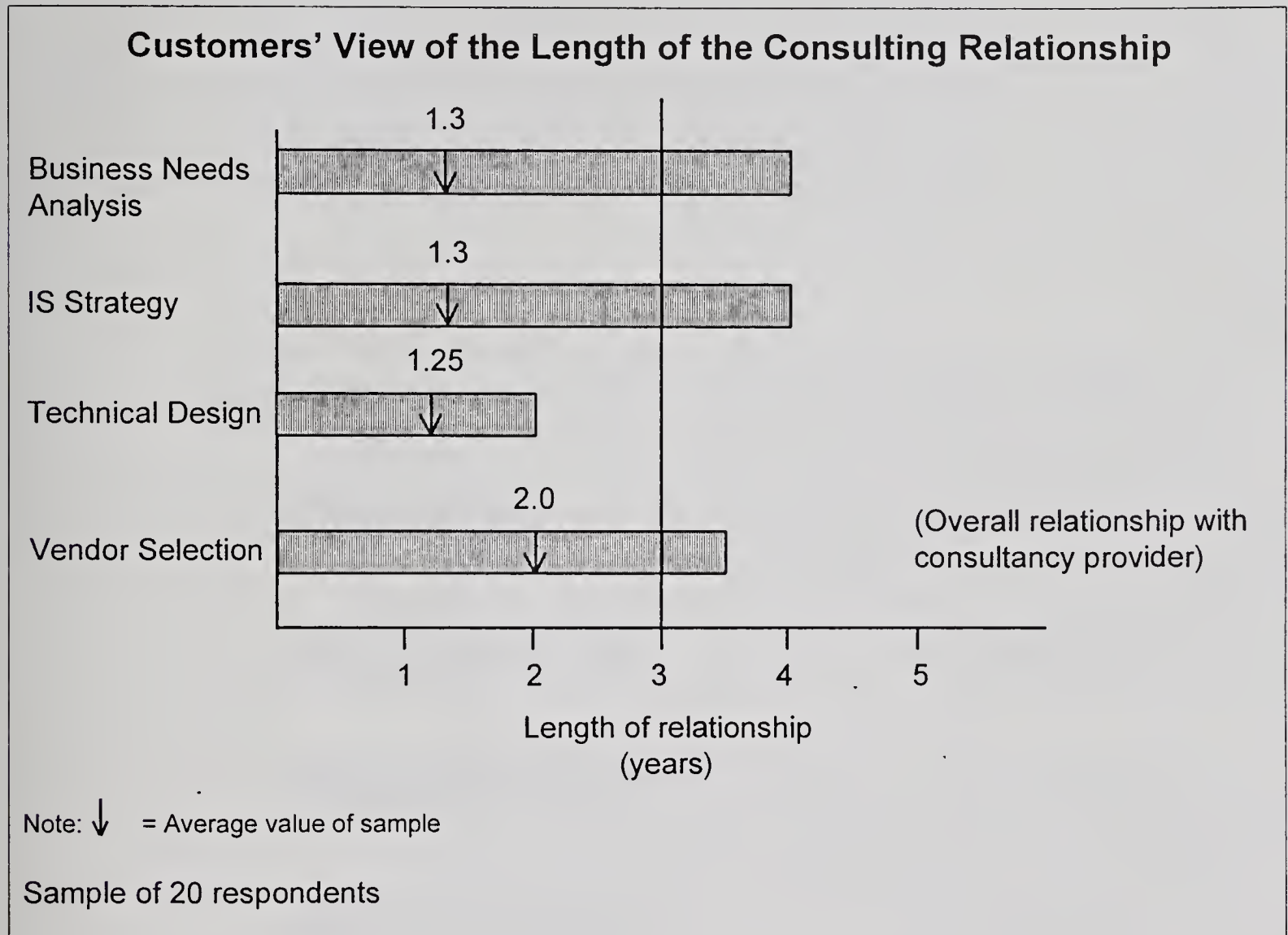
Consultancy assignments are not getting any longer. Exhibit III-8 shows the length of the consultancy relationship normally experienced by respondents. Typically 'high-level' consultancy assignments have been very short (less than one year) or they last 18 months or so. But because customers tend to stick with one or two consulting firms the relationship with any given consulting firm tends to last a long time. This explains why the typical order book of a management consulting firm is rarely longer than 4 to 5 months. The length of the overall relationship is normally governed by how long the IS Director or the Finance Director stays with his or her company.

The continuity of this relationship is being disrupted by recession in Europe, but the pattern looks like it is returning. Recession is a powerful force for change in industry and among consultants. Recession has forced organisations to cut back on consultancy and be very focused about hiring new consultancy. In many cases reported by respondents, new consultancy firms were coming into organisations hired by corporate management rather than by divisional management. This has had the effect of introducing new players into organisations and ousting old ones.

Consulting firms want to lengthen the client relationship but customers do not. Consulting firms say they want to develop long-term relationships but their customers say they like things the way they are. Customers may wish the relationship to stay the same, but it seems possible from INPUT's understanding of the market that the length of the relationship may polarise into very long relationships for very high-level consultancy and the technical and outsourced services level, and into short-term relationships at the level of IS strategy and business needs analysis. Relationships are already lengthening at the technical and outsourced services level but consultancy at the highest level has yet to establish its credentials.

One factor that is relevant to the length of consulting relationship is that BPR projects are frequently claimed to require a relationship of 24 months or more. Requiring a long relationship for BPR requires that it be regarded as a very high-level strategic relationship.

EXHIBIT III-8



E

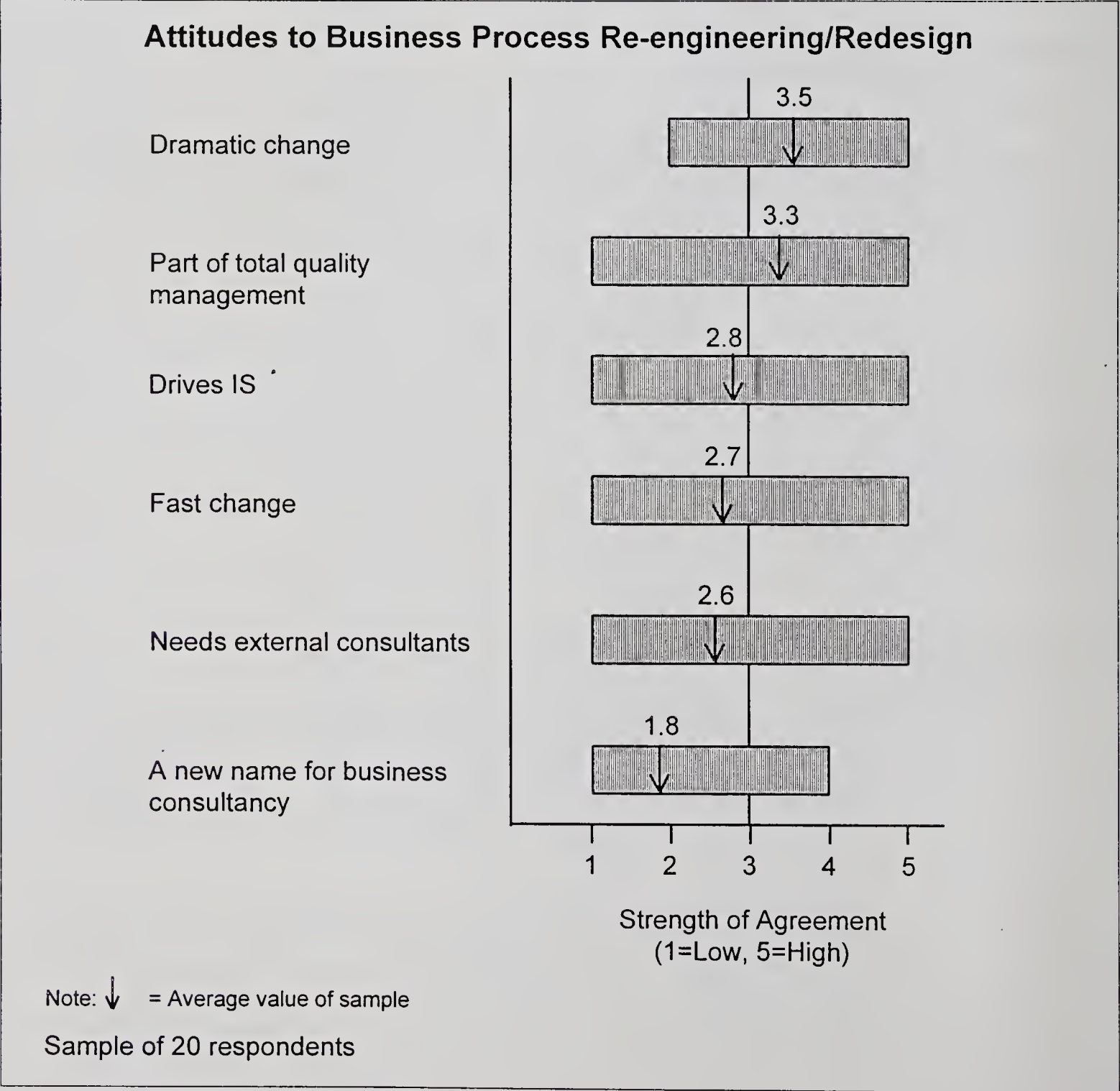
Business Process Re-engineering Has an Image Problem

There is no clear and consistent view of what BPR is. BPR appears set to become one of the major trends of the 1990s. However there are serious problems, there is confusion in the market about what exactly BPR really is and whether or not it really does what it claims to do. The pace of change in European business is getting faster and faster and markets are set to become dominated by fewer and fewer vendors.

The Chief Executive of a major white goods manufacturing company expects the number of his competitors in Europe to shrink by a third by the year 2000. BPR is one of the forces driving changes of this magnitude—businesses are forced to go back to fundamentals and look at the business, from a Europe-wide or global perspective. In this total rethink of the business the IS director plays only a secondary part—IS is forced by changes of this magnitude and speed to adapt quicker than it has ever done before.

Exhibit III-9 shows a very wide spectrum of attitude to BPR. IS directors and managers taken as a whole express no consistent view on what BPR is or whether it has any benefits. The overall results show a wide scattering of opinion. Probably the most significant factor is the personal views expressed by respondents. They had no doubt that BPR would be the means by which major and minor changes would be implemented within their organisations, and that IS would be required to respond to these changes. IS would be driven by the business in future.

EXHIBIT III-9



Looking more closely, the views of IS directors and managers are strongly polarised on particular topics. There is a strong polarisation as to whether BPR represents dramatic change, and this is almost exactly mirrored by a polarisation as to whether BPR represents fast change, but the two go together. There is also a strong polarisation as to whether BPR is part of Total Quality Management or not. Some 40% of respondents felt very strongly that BPR had nothing at all to do with TQM; however, some 25% felt that the concept of TQM definitely did embrace BPR—BPR was just one more thing an organisation committed to TQM would have to do. There was no clear link between any other factor and respondents' attitude to TQM.

The response given to the question "Does BPR drive IS" yielded a very even distribution of response. The response was almost exactly equal across the range "very strongly drives IS" through to "weakly drives IS." This was surprising until the kind of business respondents were in was examined. Highly competitive, fast-changing businesses expected BPR to have a major impact on IS and mature, global scale enterprises did not expect BPR to have much effect on IS, although some did expect BPR to yield high-value results for the business. The implication is that BPR probably does not change the natural relationship between the business and IS as much as is generally thought, even though the way the business serves its customers may change dramatically.

There is some evidence that BPR may be revolutionary in concept and evolutionary in practice. Even those strongly supportive of BPR show a tendency to evolution when it comes to implementing BPR. All respondents are in the process of planning or discussing BPR within their organisation. Only one was in the process of implementing a re-engineering (or redesign) programme. Several had carried out minor BPR pilots but these were 'proof-of-concept' trials rather than business critical projects. This leads to a problem for BPR consultancies: There are practically no European examples of completed BPR projects—so no one knows for sure whether it really works. When the plans respondents had were discussed, it emerged that these were all evolutionary in concept rather than total change. Some respondents felt that recession and the mature nature of their industry precluded the need for total change. Even respondents who expressed strongly positive views were following (voluntarily or not) an evolutionary path to BPR. One politically astute respondent commented that it was immaterial whether BPR worked or not, the fact that it forced change on the business was all that mattered.

There is a strong desire to involve internal staff in the BPR process. Nearly 75% of respondents expect to use external consultants to implement some form of BPR. However, almost all did not want the experts to do all the work. Respondents showed a strong desire to hire a small team of experts to help their organisation change itself.

Looking more deeply into this topic revealed two kinds of organisation: the majority who would like to bring in a small team of BPR experts to train and guide internal staff, and a minority who felt that only the concept of BPR was important and that given management commitment the job could be done without external consultants.

F

The Outlook for Consulting Firms is Good, but the Order-Book Is Not Getting Any Longer

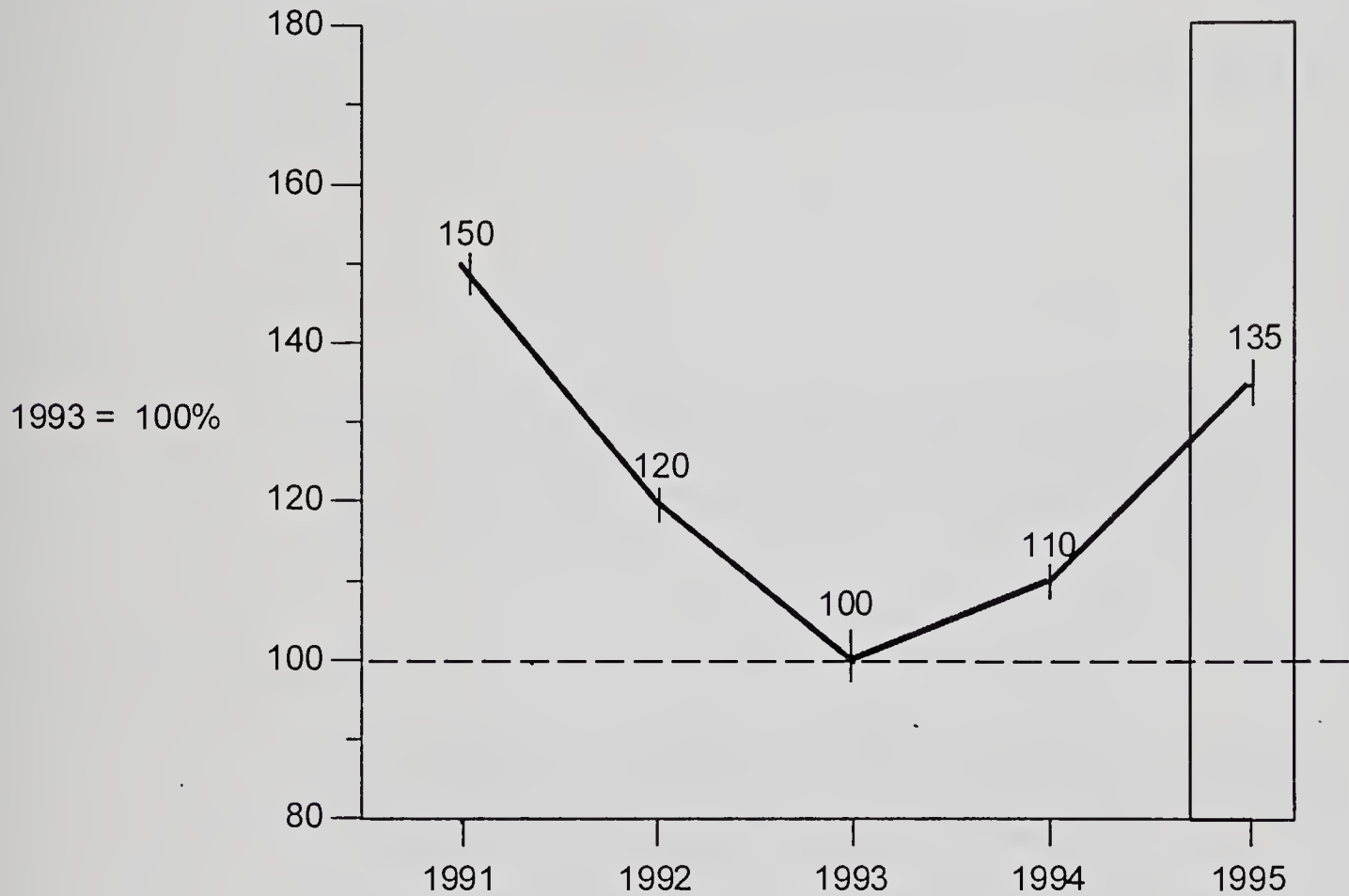
Recession has bitten hard into the revenues of the consulting firms. Many have laid off staff and a series of mergers has shrunk the overall market. The UK is very slowly coming out of recession but France and Germany are still in recession. Half of the respondents planned to spend more on consultancy in 1994 but half planned to spend the same or less. Some of this expenditure will be driven by a reducing headcount in France, Germany and Italy as recession continues to bite. This will be good news for the implementation-oriented consulting firms.

There is some evidence of a releasing of pent-up demand for IS consultants in the UK. The recession has held back many projects and many companies have been forced to redesign their businesses after substantial head-count reductions.

Some organisations have recruited their own internal consultants. A minority of very large organisations plan to spend less on consultancy in 1994 and 1995. These organisations are disappointed with the value-for-money delivered by the consulting firms in the past and the recession has enabled them to hire good quality staff laid off by the consulting firms.

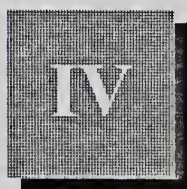
No one has planned the consultancy expenditure levels for 1995, but a rising trend is likely to continue. Even though respondents had a fairly clear idea of their likely spending on consultancy in 1994, there were no clear plans for 1995. This is shown as a rectangle in Exhibit III-10. The rectangle surrounds the range of responses. However, past experience and the presence of some definite spending plans for 1995 suggest positive prospects for expenditure growth. The absence of plans confirms that the historic short-term nature of the consultancy business is likely to continue.

EXHIBIT III-10

Average Annual Spending on Consultancy

Sample of 20 respondents

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IS Consultancy Returns to Growth in Europe

This chapter contains INPUT's market forecasts for the IS consulting sector, and an assessment of the development of the IS-related management consultancy market in Europe and of the development of business process re-engineering consultancy.

A

IS Consulting Forecast

The IS consulting market is both a subsector of the software and services market (within the professional services delivery mode) and a significant element of the market addressed by management consultants.

In fact, the overlap between the software and services market and the management consulting markets steadily increased throughout the 1980s. The majority of this overlap was the result of management consulting firms extending their IT-related activities. They did not just extend their operations into IS consulting but also into software products, development and implementation services and even into systems operations or outsourcing.

Exhibit IV-1 show this overlap for 1993. Each of these market sectors is illustrated by a rectangle whose area is proportional to the market size. Approximately one-third of management consultancy business fits within INPUT's market definitions of software and services. Similarly, about 4% of all software and services business is IS consulting. The diagram shows that IS consulting is a similarly small proportion of the management consulting business mix, and that IS vendors supply the large majority of IS consulting.

It is anticipated that over the next five years the IS vendors will begin to win back much of the business lost to management consultants during the 1980s.

EXHIBIT IV-1

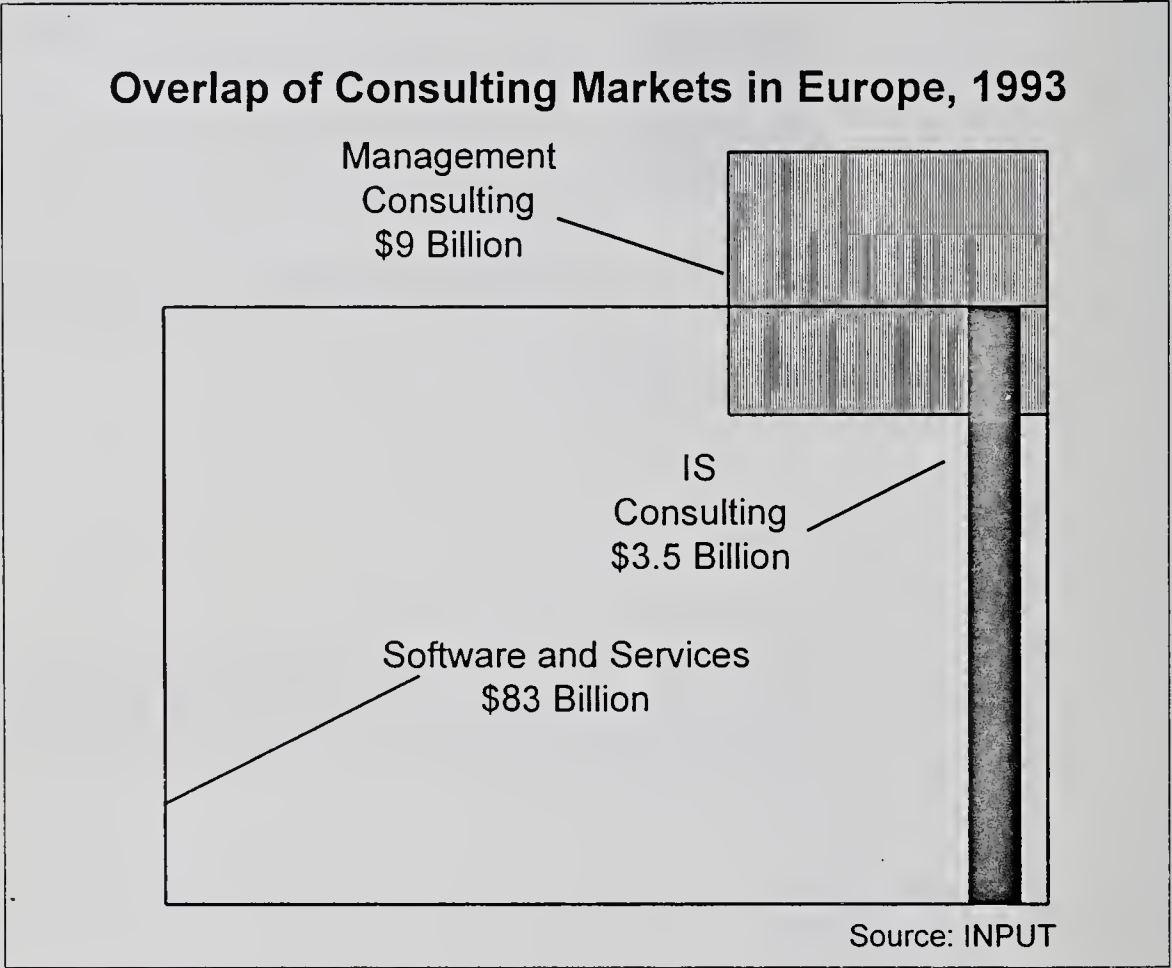


Exhibit IV-2 shows the average European growth in IS consultancy services.

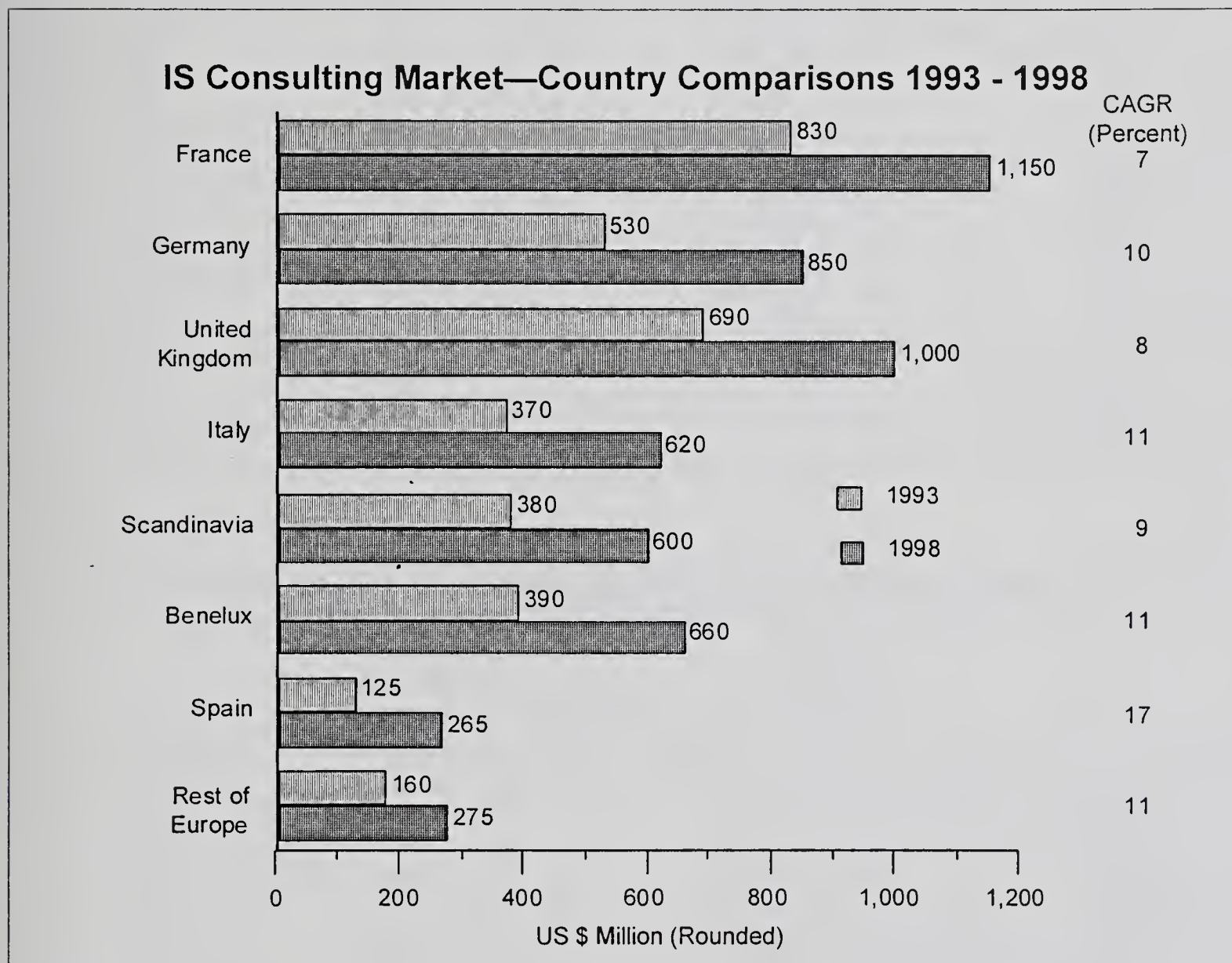
EXHIBIT IV-2



The overall CAGR of the IS consulting market in Europe is 9% over the period 1993 to 1998. However, towards the end of the period under study, 1998, the overall growth rate will rise to 12%.

Exhibit IV-3 shows the variation in average growth rate over the period 1993 to 1998.

EXHIBIT IV-3



Spain shows the highest growth rate assuming the rapid economic changes experienced in that country before the recession will continue. Italy also shows a high growth rate reflecting the emergence of Italian industry into the mainstream of the European economy. The UK and France show the least growth: The UK, because of its depleted industrial base, and France, because of its adherence to rigid economic policies.

Exhibits IV-4 to IV-8 list the leading IS consultancy vendors for Europe, France, Germany, the U.K. and Italy.

EXHIBIT IV-4

Leading Vendors, IS Consulting Services, Europe, 1992

Rank	Vendor	Country of Origin	Estimated Sector Revenues (\$ Millions)	Market Share (Percent)
1	Andersen Consulting	U.S.	85	2.7
2	Cap Gemini Sogeti	France	80	2.5
3	Finsiel	Italy	45	1.4
4	Oracle	U.S.	45	1.4
5	Raet	Netherlands	45	1.4
6	IBM	U.S.	30	0.9
7	Unisys	U.S.	30	0.9
8	Axime	France	20	0.6
9	CGI	France	20	0.6
10	EDS	U.S.	20	0.6
	Total Listed		420	13.0
	Total Market		3,200	100.0

EXHIBIT IV-5

Leading Vendors, IS Consulting Services, France, 1992

Rank	Vendor	Country of Origin	Estimated Sector Revenues (FF Millions)	Market Share (Percent)
1	Cap Gemini Sogeti	France	140	3.7
2	Sema Group	France	140	3.7
3	Axime	France	100	2.6
4	CGI	France	80	2.1
5	SG2	France	75	2.0
6	Andersen Consulting	U.S.	75	2.0
7	EDS-GFI	U.S.	60	1.6
8	Oracle	U.S.	50	1.3
9	Sligos	France	45	1.2
10	GSI	France	40	1.1
	Total Listed		805	21.3
	Total Market		3,800	100.0

EXHIBIT IV-6

Leading Vendors, IS Consulting Services, Germany, 1992

Rank	Vendor	Country of Origin	Estimated Sector Revenues (DM Millions)	Market Share (Percent)
1	CAP debis	Germany	25	3.3
2	Datev	Germany	20	2.6
3	Oracle	U.S.	10	1.3
4	IBM	U.S.	10	1.3
5	Andersen Consulting	U.S.	10	1.3
6	AC Service [Raet]	Netherlands	10	1.3
7	SAP	Germany	10	1.3
8	Sema Group	France	10	1.3
9	Siemens-Nixdorf	Germany	5	0.7
10	Unisys	U.S.	5	0.7
	Total listed		115	15.1
	Total market		755	100.0

EXHIBIT IV-7

Leading Vendors, IS Consulting Services, United Kingdom, 1992

Rank	Vendor	Country of Origin	Estimated Sector Revenues (PS Millions)	Market Share (Percent)
1	Andersen Consulting	U.S.	20	4.9
2	Logica	U.K.	15	3.7
3	PE-International	U.K.	10	2.4
4	Sema Group	France	10	2.4
5	Oracle	U.S.	5	1.2
6	EDS-Scicon	U.S.	5	1.2
7	ICL (Fujitsu)	U.K. (Japan)	5	1.2
8	Hoskyns (CGS)	U.K. (F)	5	1.2
9	AT&T	U.S.	5	1.2
10	Coopers & Lybrand	U.S.	5	1.2
	Total Listed		85	20.6
	Total Market		410	100.0

EXHIBIT IV-8

Leading Vendors, IS Consulting Services, Italy, 1992

Rank	Vendor	Country of Origin	Estimated Sector Revenues (Lira Billions)	Market Share (Percent)
1	Finsiel	Italy	50	13.0
2	Andersen Consulting	U.S.	15	3.9
3	S & M Group	Italy	15	3.9
4	Olivetti	Italy	10	2.6
5	Logica	U.K.	5	1.3
6	Cap Gemini Sogeti	France	5	1.3
7	Engineering	Italy	5	1.3
8	IBM	U.S.	5	1.3
9	Formula Gruppo	Italy	5	1.3
10	Unisys	U.S.	5	1.3
	Total Listed		120	31.2
	Total Market		385	100

B

The Management Consulting Market

In order to understand the development and growth of management consultancy in Europe it is necessary to take a brief look at how the relationship between general management consultancy and IS consultancy has developed. Management consultancy expanded rapidly in all the heavily industrialised parts of Europe in the 1980s. Partly this has been on the back of a progressive economic growth and partly as a result of the general increase in the level of sophistication of European management. Many of Europe’s senior managers had by this time had some exposure to the major business schools of the USA—and had seen the dramatic and beneficial effects of planned management.

Exhibit IV-9 summarises the main forces driving the consultancy market during the 1980s. The general management consulting firms grasped the importance of IS to their future success and realised that the time was ripe to begin to transfer control of IS from the technocrats to management. Many of these general management consulting firms were involved in financial audit work and were exposed to the severe problems poorly managed computer projects could cause. During this period, IS-related consultancy grew from around 15% to 35% of the general management consultancy firms’ business. In addition, the general management consulting firms increased their share of the computer services and software market from some 6% to 12%.

EXHIBIT IV-9

Management Consultancy Historic Trends - The 1980s

- | | |
|------------------|--|
| • IT-related | <ul style="list-style-type: none"> - Grew from 15% to 35% of business - Share of computer services market grew from 2% to 4% - Implementation main growth contributor - Share of IS Consulting sector held steady at 55% |
| • Client needs | <ul style="list-style-type: none"> - Cost and efficiency improvements - Need for competitive edge |
| • Demand drivers | <ul style="list-style-type: none"> - Privatisation - Deregulation - "Single European Market" |

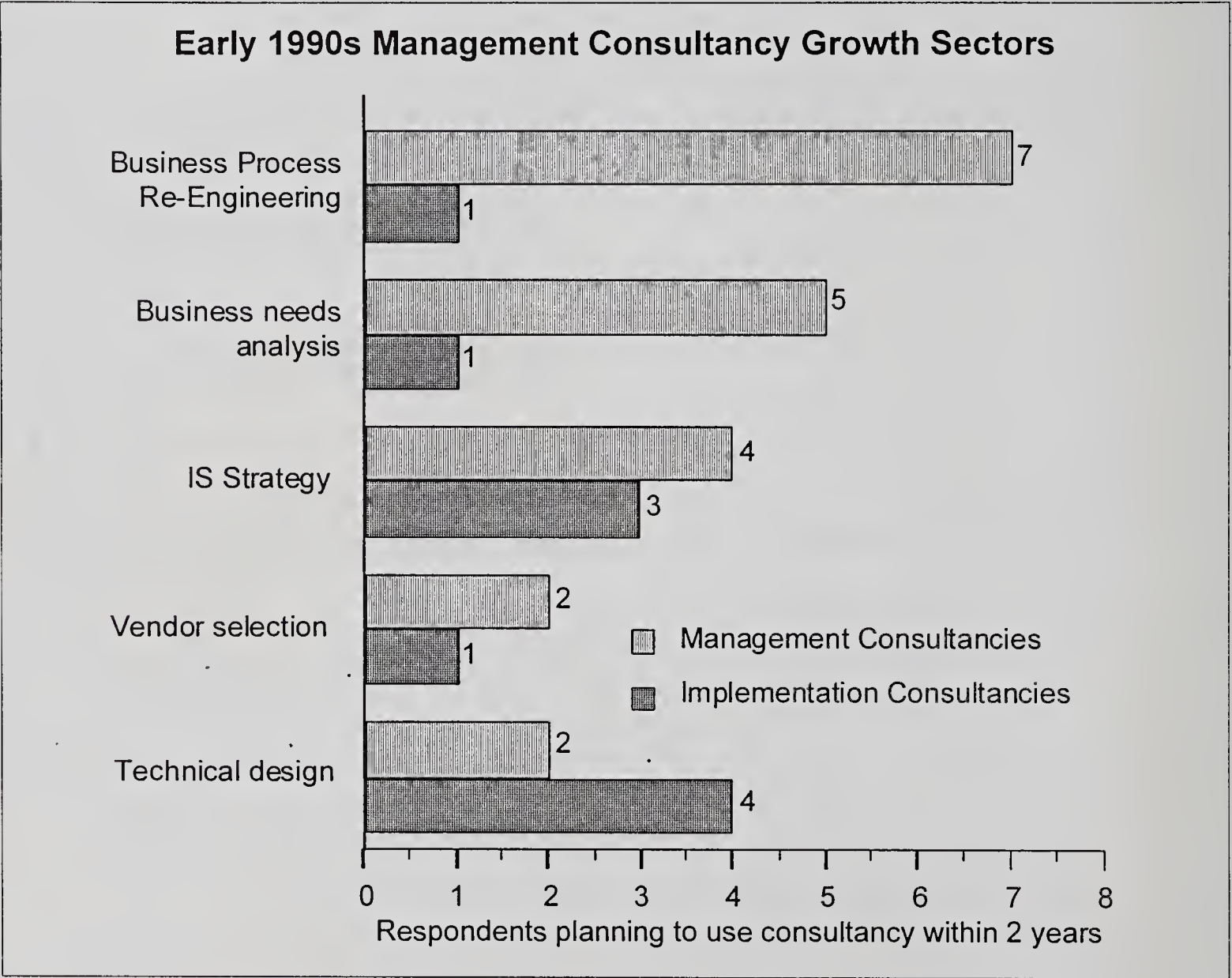
By the early 1990s the economic growth was over. One of the most severe recessions to hit the world economy for 50 or more years slowed growth dramatically in all industry sectors. Consulting firms were effected at least as hard as their clients and a period of zero or negative growth set in for some sectors of the consulting business.

Exhibit IV-10 shows the number of respondents planning to use different consulting services over the next two years. Highest potential demand was for BPR with conventional business needs analysis following. In both technical design and IS strategy there is strong preference for implementation consultants. This is important when analysing the changes that recession has brought about in the consulting sector.

During the early 1990s, recession many consulting firms cut back heavily on staff. Bain, Ernst & Young, KPMG and Coopers & Lybrand were just some of the firms who laid off partners and consulting staff. A few firms, however, expanded by acquisition. Sogeti (Gemini Consulting), CSC-Index and McKinsey all acquired specialist consulting firms. This leaves the market with fewer small and medium-sized consulting firms and has expanded the influence of the larger management consultancies.

The market is dividing into two groups: those firms with a strong business strategy bias such as McKinsey, Bain, Boston Consulting and CSC Index; and those with strength in technology and systems implementation such as Sogeti, Sema, EDS, Digital and IBM. Both groups are trying to extend their influence into both markets but only Andersen Consulting has been successful at projecting an image of strength in both business strategy and IS in Europe. These changes mean that customers must consider carefully the match between their needs and the consulting firm they hire.

EXHIBIT IV-10



INPUT believes that the business strategy consulting firms will find it easier to move into IS than the IS firms will find it to move into business strategy. This is because technology skills are becoming more readily available and the success of IS projects is now seen to be strongly influenced by people and business issues rather than just IS systems design.

However, it is also unlikely that business strategy consultancies will move more strongly into IS implementation. This is because the culture of strategic management consultancies is one of new business ideas, change and the scrapping of existing systems. On the other hand, large-scale IS consulting requires a heavy investment in people, training and techniques and a strategy of building on existing systems. The two cultures are very different and attract different kinds of manager.

Exhibit IV-11 shows the profile of management consultancy in the early 1990s. The IS-related proportion of the management consultancy firms remains static. Overall growth in IS consultancy, however, remains at about 9%. This growth derives from ongoing implementation work, outsourcing and IS implementation driven by BPR and traditional management consulting. Factors driving IS growth are the length of the recession, the ever-increasing complexity of doing business, a strong focus on supporting customers and an ongoing desire to consider outsourcing IT.

EXHIBIT IV-11

Management Consultancy Trends in the Early 1990s

- | | |
|------------------|---|
| • IT-related | <ul style="list-style-type: none"> - Zero or negative growth - IT-related share stays constant or drops - IS growth slowed to 9% - Implementation firms continue to grow |
| • Clients | <ul style="list-style-type: none"> - Still spending but new projects held back - Focus on fast and high return projects - Focus on in-house added value - Focus on globalisation and internationalisation |
| • Demand drivers | <ul style="list-style-type: none"> - Recession - Business complexity - Customer service support - Outsourcing |

One of the trends clearly visible by the early 1990s is the increased business orientation of IS and IS managers. More and more frequently these managers are being drawn from the ranks of general management and financial specialists rather than the IS environment. This trend was very clear in one company studied where the new IS director had almost no IT background at all, but was a senior manager, seconded from finance reporting directly to the organisation's Chief Executive. This particular IS director was responsible along with his consultancy team for turning the entire IS operation from being focused inwards on operations to looking outwards to the customers and to their key business processes.

A related trend that was clearly visible by the 1990s was that although computing was getting more complex it was getting simpler from the user's point of view and from the management's point of view. Computer application software development had become so costly, complex and so specialised that many organisations moved to packaged solutions and to specialist suppliers for software solution development. They simply could not and did not want to support the level of technical skill required to develop major systems in-house. Therefore, the need for in-depth technical knowledge has diminished and the need for business knowledge has increased.

One trend that seems absent from the development of the consultancy market is the development of European specialisation. Those consulting firms operating in Europe divide into national players and global players. Increasingly, large European companies are having to become global operators in order to compete successfully with U.S.A. and Far Eastern-based competitors.

Exhibit IV-12 identifies the main factors that will drive the market for consultancy from the mid 1990s. The increased commoditisation of IT will mean that although the technology will be very complex, this complexity will be almost entirely hidden from users and their business strategy consultants. Therefore, the value added by IS business strategy consultants may tend to reduce even though the pace of change within business will get still faster.

EXHIBIT IV-12

Management Consultancy Trends for the mid-1990s

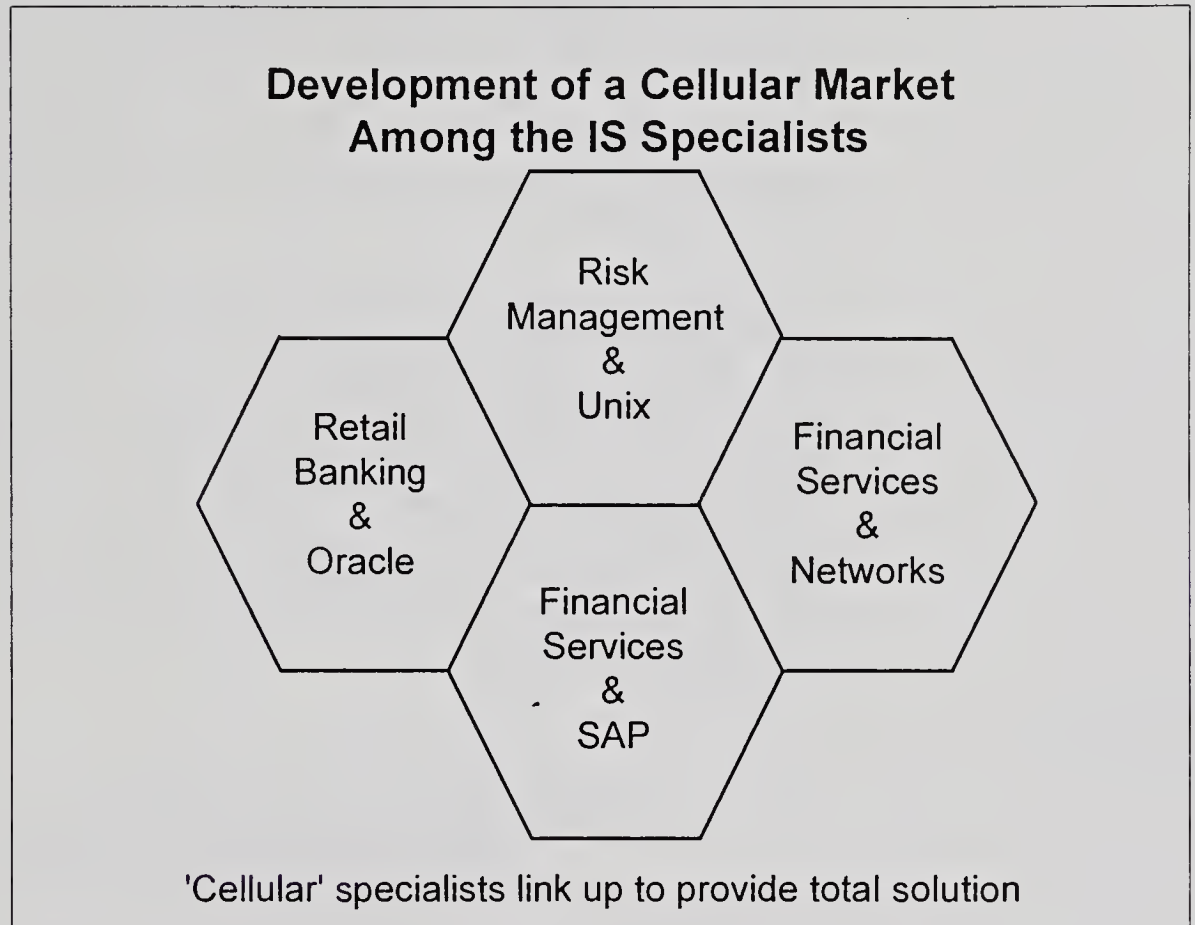
• IT-related	<ul style="list-style-type: none">- Return to steady growth of 9%- IS specialists' share grows slightly faster- Management consultants' share stays static- IT market as a whole grows at under 5%
• Clients	<ul style="list-style-type: none">- IT becomes more of a commodity- IS becomes more service led- Management and users gain control of IS- Market polarises to high level management consultancy and implementation specialists with industry specialists
• Demand drivers	<ul style="list-style-type: none">- Customer service- Mergers and acquisitions

The IS consulting market will grow at about 9%. INPUT expects the IS specialist vendors to begin to take back market share from the management consultancy firms. The reason for this is that user management and users will develop a clearer and more business-focused expression of their requirements and the IS specialists will have developed the skills to understand those requirements. The IS specialists will also begin to specialise in the application of their technical skills. No longer will knowledge of C or C++ or relational databases be sufficient; the IS specialists will need to develop specific industry function skills.

Increasing specialisation at the technical level implies that groups of specialists will need to cooperate in order to provide a complete business solution. The high-level management consultancy firms will be demanding that the technical specialists develop these complete business solutions ever more quickly. To do this the specialists will focus on particular industries or industry sectors and a particular IS skill set.

Typical examples might be a specialist in using the SAP package set in the insurance sector or a specialist in applying object technology to retail banking. No one 'cell' will offer a complete solution but combinations of 'cells' will be able to put systems together quickly and efficiently. The conceptual structure of this 'cellular' market is shown in Exhibit IV-13.

EXHIBIT IV-13



There is a similarity here between the construction industry and the software industry. The construction industry builds large, complex structures quickly and economically. These large structures are generally safe and reliable despite having been built quickly. The management structure that puts together complex buildings—architect, main contractor and subcontractors has developed a functional and legal structure that clearly defines their separate and distinct responsibilities.

INPUT expects a similar structure will evolve within the consulting business. High level management consulting firms will take the role of architects, some of the larger management and implementation consultants will evolve into main contractors and the rest will evolve into subcontractors.

C

Business Process Re-engineering

Business Process Re-engineering (BPR) was developed in the U.S. as a concept in the mid-1980s and has grown to become a mainstream consultancy wave in the early 1990s. BPR has produced three main reactions with the business community—firstly a sense of frustration that businesses could be run much better, secondly a concern that IS is failing to deliver significant benefits and thirdly a very serious concern regarding the ability of the BPR gurus to deliver results. The first two reactions are very positive for BPR but the last resonance is negative, therefore there is conflict.

In Exhibit IV-14 are listed the main factors driving BPR in the early 1990s. Dramatic change to IS systems is frequently but not always a consequence of BPR. Some IS systems are structured in a way that makes ‘plug and play’ easy. For organisations based on this paradigm, BPR creates few problems at the IS level. For many more organisations, their IS systems will need drastic revision to enable BPR to work. This means major rewrites of systems, major expense and a growth in work for the implementation consultants. The expense of dramatic change will hold back continued growth in BPR consulting work while the changes work their way through to the business and are reflected in profits.

EXHIBIT IV-14

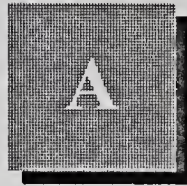
Management Consultancy Issues
Affecting Take-up of BPR

• IT-related	- Dramatically changes IS systems - Drives industry and sector experience - Functional boundaries defined
• Client needs	- Driven by top management - Executive level concerns - Change management
• Demand drivers	- Competition - Mergers and acquisitions - Globalisation and Internationalisation

Implementation consultants will find that the need to understand complex business issues and implement systems quickly will force them into specialisation. They will need to develop relationships with other specialists in order to develop large-scale business systems quickly. INPUT expects industry standards for functional and commercial interfaces between business subsystems will emerge. These standards will define the borders between the ‘cells’ of the cellular market, illustrated in Exhibit IV-13.

BPR creates tension between the topmost level of organisations and the IS executive level. IS executives can remember too many impractical and naive 'solutions' sold at chief executive level and passed on to IS for implementation. Some IS directors regard the zeal of BPR consultants as a threat to their careers. BPR may have won the minds of many IS directors but it has not won the hearts of all of them.

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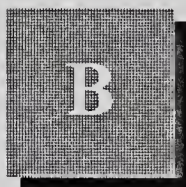
Forecast Database for IS Consulting, 1993-1998

EXHIBIT A-1

IS Consulting Forecast Database, Country Comparisons, Europe

	U.S. \$ Millions (Rounded)								
IS Consulting	92-93 Growth 1992	(%)	1993	1994	1995	1996	1997	1998	93-98 CAGR (%)
Total (rounded)	3,200	9	3,450	3,750	4,100	4,450	4,900	5,400	9
France	760	9	830	880	940	1,000	1,070	1,150	7
Germany	485	10	530	585	645	710	775	845	10
United Kingdom	645	6	685	740	790	850	925	995	8
Italy	335	10	370	385	415	470	540	620	11
Sweden	160	10	175	190	215	235	255	270	9
Denmark	80	11	85	95	105	115	130	140	10
Norway	60	9	65	75	80	90	100	105	10
Finland	50	8	55	60	60	65	75	80	8
Netherlands	225	9	245	265	295	320	360	415	11
Belgium	125	12	140	160	175	200	225	245	12
Switzerland	70	10	80	85	95	110	120	140	12
Austria	40	9	45	50	50	60	65	70	10
Spain	105	15	125	145	165	195	230	265	17
Portugal	6	23	7	9	10	12	15	18	21
Greece	9	14	10	11	13	15	17	20	15
Ireland	19	0	19	20	20	21	23	25	6
Eastern Europe	2	0	2	2	2	2	2	2	0

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User Questionnaire Consultancy Services

INPUT (Europe) is an international research firm specialising in studying the computer software and services marketplace. We are conducting a survey of major companies in Europe in order to understand some significant changes taking place in the consulting market—declining fee revenues, heavy competition and in some cases a move towards very high added-value services such as business process re-engineering and outsourcing.

We would appreciate your help in completing this questionnaire. To save you the trouble of completing and returning it we will telephone your office in a day or so to discuss this questionnaire by telephone. This survey is confidential and neither your name nor your company will be identified. To say thank-you and to help justify your time and effort we will send you a copy of the executive summary free of charge.

1. What kind of advice and guidance consultancy services have you used in the past and what kind of services do you plan to use most in the future? (Tick the boxes)

Kind of work	Used in last 2 years	Use now	Plan to use over next 3 years
Business needs consulting	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Information Systems (IS) Strategy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Outsourcing the IS function	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Downsizing the IS function	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other consultancy (describe)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2. How satisfied are you with the results and do you use consultants only for specialist advice or do you prefer them to implement their recommendations?

Kind of work	Satisfaction level					Prefer specialist Consultants	Prefer implementation Consultants
	Lo		Hi				
	1	2	3	4	5		
Business needs consulting			<input type="checkbox"/>		(eg. 3.6)	<input type="checkbox"/>	<input type="checkbox"/>
IS Strategy			<input type="checkbox"/>		(eg. 3.6)	<input type="checkbox"/>	<input type="checkbox"/>
Outsourcing the IS function			<input type="checkbox"/>		(eg. 3.6)	<input type="checkbox"/>	<input type="checkbox"/>
Downsizing the IS function			<input type="checkbox"/>		(eg. 3.6)	<input type="checkbox"/>	<input type="checkbox"/>

3. How strongly do you agree that the following terms describe the concept of Business Process Re-engineering?

Concept	Level of agreement					Concept	Level of agreement				
	Lo		Hi				Lo		Hi		
	1	2	3	4	5		1	2	3	4	5
Dramatic change			<input type="checkbox"/>		(eg. 3.6)	New name for business consulting			<input type="checkbox"/>		(eg. 3.6)
Part of ‘total			<input type="checkbox"/>		(eg. 3.6)	Fast change			<input type="checkbox"/>		(eg. 3.6)
Change that drives IS investment			<input type="checkbox"/>		(eg. 3.6)	Must use external consultants			<input type="checkbox"/>		(eg. 3.6)

4. For which part of your business is process re-engineering most important?

5. What is the current status of your business process re-engineering?

	Discussion	Planned	In Progress	Completed
Tick one or more boxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

6. Do you expect to use external consultants?

Yes ☐ No ☐

7. Do you think consultants represent 'value for money' and do you make consultants tender competitively for your business?

Kind of Work	Value for money					Always tender	Sometimes tender	Rarely tender
	Lo Hi							
	1	2	3	4	5			
Business needs consulting	<input type="checkbox"/>				(eg. 3.6)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Business process re-engineering	<input type="checkbox"/>				(eg. 3.6)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
IS Strategy	<input type="checkbox"/>				(eg. 3.6)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Technical Design	<input type="checkbox"/>				(eg. 3.6)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Downsizing	<input type="checkbox"/>				(eg. 3.6)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

8. Taking your 1993 spending on consultancy as a baseline of 100%, what do you think your spend on consultancy was or will be in:

1991 = _____ 1992 = _____ 1993 = 100% 1994 = _____ 1995 = _____

9. Finally, we would like to ask you if you wish to add any further comments and thank you for your cooperation.

Please confirm your name, position and company address so we can send you the summary findings.

Name	<hr/>
Job	<hr/>
Company	<hr/>
Address	<hr/>
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